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With The Editors

Thinking Ahead

We say we "look forward" to Christmas or some other pleasant event, but isn't it a fact that most of us find it next to impossible to look ahead into the future without being pushed and guided in the effort? And isn't it true that the ability to anticipate happenings is the distinguishing characteristic of successful men, whether they are farmers watching the weather, speculators judging the market, or family heads deciding upon the purchase of a home?

One of the first questions in the minds of the editors when they see this issue in print will be whether or not it thinks ahead. Not every article should attempt it, perhaps, and certainly none should be filled with unsupported prophecies; but it is clear enough when a general failure to project our own minds in the one important direction has occurred. The defect may not be noticeable to readers who aren't looking for it, but the issue of the magazine handicapped by it fails definitely in its objective of helpfulness.

It goes without saying that we are prepared to be well satisfied with the current issue in this particular repect. Mr. Miller's discussions of the market are noted for their clear interpretations of the future. Our Washington correspondent has been consistently ahead of events with his Capitol Briefs and Happening in Washington, where you will find a spot news story of what faces the utilities from their greatest danger zone.

Has Canada today the potentialities this country had at the time of the last war? Dr. Winkler puts on distance glasses to size up the outlook for our good neighbor and possible bitter competitor in his article on page 141. Then a few pages further on there is the ten-page study of the aircraft industry—its present and its calculable future. The business article on "Boom or Boomlet" sets its mark months ahead, and the two on fourth quarter earnings and year-end dividends look well beyond yesterday's newspapers. Even the Business Analyst, though it records present facts does so in all cases with their sequels in mind, and nowhere else can so much illuminating statistical material be found in convenient assembly.

The courage and usually the ability it takes to think ahead are not lacking in most people—simply the impulse. We are sure that whether you agree with the opinions or not you will find them stimulating.

★ ★ ★ IN THE NEXT ISSUE ★ ★ ★

Industry Appraises Its Customers

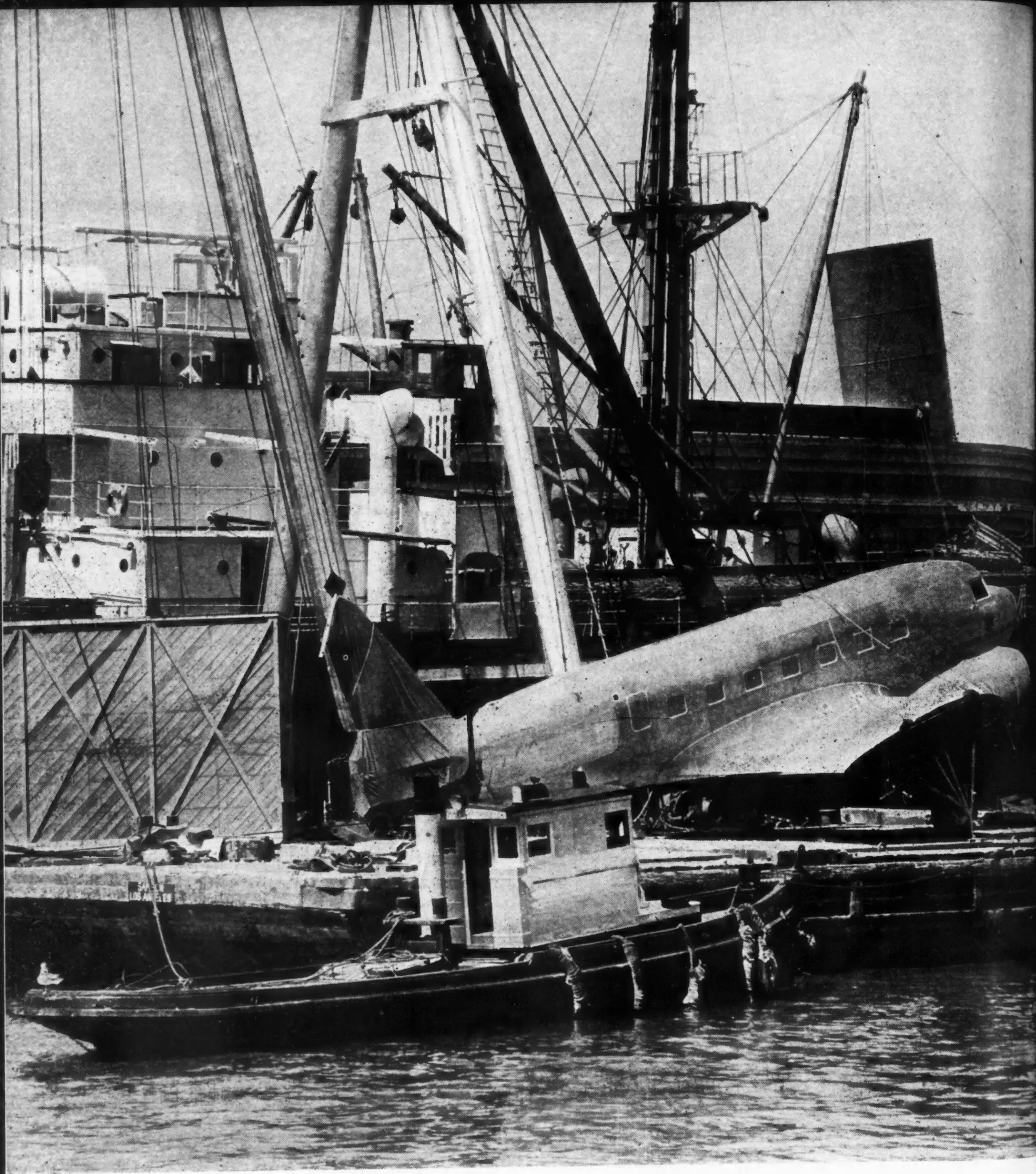
—Consumer Buying Power vs. Production

Watch the Banking Figures

—They Forecast the 1933 Upturn—1937 Slump

—1938 Pickup—What Are They Predicting Now?

10 Volatile Low-Priced Stocks Analyzed

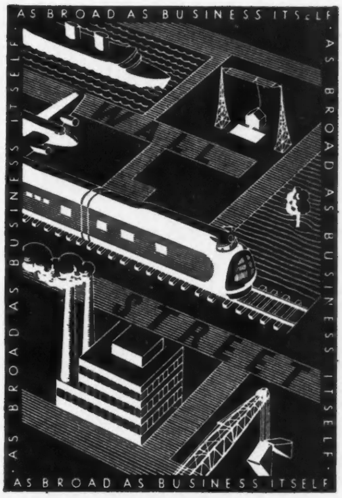


Soilbelman Syndicate

Planes are flocking to harbors as America's revised rules on neutrality permit shipments to the Allies. Changes practically as great but less visible are those in imports, creating new situations in many industries as brought out on page 171 in "Import and Export War Babies."

THE MAGAZINE OF WALL STREET

C. G. Wyckoff, *Publisher* : Laurence Stern, *Managing Editor*



Questions of the Day

Can even the highest of the many estimates of Allied purchasing power in this country—their gold, bank balances, stocks, bonds and so forth—be considered large in relation to their needs for goods if the war is prolonged?

As implied in the question, there is much leeway in calculating the amount of British and French assets ready to finance purchases in the United States. But in case of a short war very little in the way of outside raw materials or manufactured goods will be required; if the war is to be a long one, then we should look at the income statements of the Allies rather than their balance sheets. The United Kingdom alone accounts for over half of the world's annual gold production, and gold still remains the quintessence of purchasing power. It has almost a world monopoly in nickel. Rubber, tin, tea, wool, and other commodities are produced in quantities far above the Allies' own needs; in copper they can easily be self-sufficient. Add to these equivalents of cash the services such as shipping Britain and France perform for outsiders, and an impressive picture of their true purchasing power emerges. These are the resources that *will* be used in case of a long war; the others may or may not be called upon.

In September commodities rose sharply and good bonds fell; since then both seem to have reversed their courses. Why?

The contrary action of these two markets is a reflection of, and a clue to, the prospect for war. When hostilities first began they were taken to portend not only the withdrawal of millions of men from normal productive pursuits, but a destruction of materials on a tremendous scale. Commodities naturally shot up, and since war has always in the past mean higher interest rates, money bonds fell. Changed opinions on the nature of this conflict turned both markets. As they veer in opposite directions they will represent a significant consensus of investment and speculative opinion on the type of war the world has on its hands.

Are gains in war orders likely to exceed our losses in normal trade?

September exports were 15 per cent above August, about the usual seasonal increase, although our embargo on war shipments held up a considerable amount of outgoing business, and the gains were concentrated in agricultural products. But if the Allies were to live up to newspaper predictions and place a billion dollars' worth of orders here immediately, that would be substantial recompense for some of the business we are sure to lose. Last year our total exports were three billions; in 1929 they were 66 per cent larger. Perhaps the most significant comparisons in deciding the importance of war orders are to be found in the annual gross figures of individual American enterprises—General Motors' sales of almost a billion in the first nine months of this year,

or American Telephone's revenues consistently above a billion.

If some industries such as steel are already at capacity, is it not true that their influence on any index of business activity can only be damaging from now on, that they can not in any case help push the index higher?

The only way the steel makers could contribute to the business improvement with further gains of any size would be to erect new plants. The time required for such a development places it outside the scope of the present question. Therefore it is literally true that the business indexes have almost nothing to gain from any change in steel production while they have, of course, much to lose. A further point of some importance to one who relies upon an index is that seasonal adjustments from now on to the end of the year will translate static production into a rise, simply because a drop at year-end is normal. If production holds at the same level in January, the effect on a seasonally adjusted index will be to lower it, because gains are usually expected. This is a defect in a business index—seldom serious, and unavoidable if the objective of clarity is to be attained. Nevertheless, he who runs may read incorrectly over the next month or two unless forewarned.

The Trend of Events

FUNNY WAR . . . At least this tragedy of war is not without delicious elements of comic relief.

The farcical feat of the Nazis in encircling themselves by means of the Russian deal after complaining bitterly of Britain's vain efforts to accomplish the same purpose! Hitler's increasingly feeble protestations that both Stalin and Mussolini are his beloved pals! The Moscow pot calling the Rome kettle black and vice versa! Molotov including Germany in his denunciation of capitalist-imperialistic war! The Nazi explanation that British agents set the time-bomb that almost bumped off Der Fuehrer! Mussolini's transformation from tough guy to the Casper Milquetoast of Europe! Molotov exhorting the exploited workers of the capitalist world to throw off their chains!

To Molotov must go the palm for sheer gall and fancy lying. What Communism has accomplished for the Russian masses after more than twenty years of muddling can be boiled down to a few observations recently made by a correspondent for the New York Times, who was forced out of Vienna and Prague by the Nazi invasions and who, settling in Moscow without an adequate wardrobe, has been trying unsuccessfully ever since to buy needed clothing.

In a land that exports furs, he found neither fur coat nor fur cap for sale. Stout boots could not be bought "save in such quality as would be a joke elsewhere." A warm sweater was unobtainable, and a light one the writer was ready to discard "already is bespoken for by a Russian grocery shop assistant whose wife is desperately anxious to unravel it in order to knit a winter suit with the otherwise unprocurable wool for her year-old daughter." Fortunately, the correspondent was able to buy a badly needed pair of rubbers. To get them he has "only to go around the nearest corner from his house, where there is a big rubber store, take his place as No. 601 of a daily queue and obtain a passable pair after a fourteen-hour wait."

Such is a small sample of how things are in the Utopia that Joe Stalin runs with the aid of numerous Charlie McCarthys, including that droll fellow, Molotov.

TOWARD COMMON SENSE . . . The only general conclusion that can be drawn from the recent off-year elections is that the voters showed a pronounced trend toward middle-of-the-road sanity. California voters defeated the cock-eyed "ham and eggs" pension scheme—which incidentally would have turned over that state's government to dictatorial rule—by a two to one majority, while by three to one Ohio turned down a less obnoxious but almost equally unsupportable pension plan. Where bond issues to finance new public spending came before electorates, the verdict in a majority of instances was thumbs down.

Even so, it is of continuing political significance that in one state a minority as large as one-third of the electorate favored a nostrum bordering on lunacy; and that in another as many as one-fourth of the voters endorsed a proposal utterly and obviously beyond that state's capacity to finance out of tax revenues. The old age pension issue is far from dead. It will plague both Democratic and Republican candidates in the 1940 election.

But while we are not through with crackpots nor with unscrupulous politicians who ride into office on promises they know can not be made good, there is solid reassurance in the evidence that a controlling majority of our people have their feet on the ground, with less and less taste for short cuts to Utopia.

TAX THREAT . . . The moot question of higher Federal taxes next year has no doubt been one of the several uncertainties accounting for the marked discrepancy in recent weeks between the performance of the stock market and that of the business index—the market's lag behind business having been the widest in some years. Fear of the tax threat has not been founded on "war profits" tax proposals advanced by a few individual members of Congress—without Administration sponsorship—as much as upon a lurking suspicion that the inevitable large increases in our national defense spending, plus the general plea of war emergency, would in due course swing the President around to advocacy of heavier levies.

While we do not know the President's intentions, business and investment concern over this question will certainly be intensified by last week's statement by Marriner S. Eccles, chairman of the Federal Reserve Board, in urging a drastic revision of the Federal tax structure. Quite aside from the character of taxes and the level of rates, frequent tax changes are an unstabilizing influence to which all too many planners at Washington—professing to desire economic stability—have been curiously indifferent.

Mr. Eccles urges lower income tax exemptions for the little fellow, higher rates on incomes between $5,000 and $50,000, higher normal corporation income tax, reduced exemption on the inheritance tax, special taxes on "war profits", revival of taxation similar to the undistributed earnings surtax to discourage "over-accumulation of so-called rainy-day reserves which are being set aside in excessively large amounts, particularly by the large corporations"; reduction of "consumption" taxes; and revision of Social Security taxes toward lower current levies and larger benefit payments.

This would, indeed, be a major operation! It is exceedingly doubtful, however, that in an election year all of these changes would be adopted by Congress or that all would be pressed by the Administration. Among the most improbable are lower exemptions on the lowest income tax brackets, reduction of "nuisance" or consumption taxes and revival of the hated undistributed profits levy. Higher corporate rates and increased exactions from the middle-income brackets have more political sex appeal. Mr. Eccles' advocacy of "war profits" taxes is wholly indefensible, for as long as we are not at war there is neither valid reason for war taxes nor is there any precise basis for determining what portion of a given corporation's profits are actually attributable to war orders. For example, in a given instance, war orders could result in larger profits on non-war orders simply through the favorable influence of increased volume on operating efficiency and unit production costs. If we must have higher taxes let us at least avoid further increase in bureaucratic red tape and bookkeeping headaches.

WASHINGTON GAUGES BUSINESS . . . Business predictions from Washington are always interesting, even to those who prefer a minimum of political flavoring in their economic thought. This particular forecasting season is wide open now, and it has brought forth some attempts at reasoned opinions, rather than the stereotyped words of cheer that used to emerge at regular intervals from such quarters as the Department of Commerce. Prominent New Deal economists, for instance, are convinced that the first quarter of 1940 will be marked by a definite recession which will give way later in the year to resumed industrial gains. One of these men in particular has acquired a standing because of several successes in calling the turns of the last few years. The Federal Reserve Board is conservative as usual, refusing to commit itself beyond the end of December. Its Bulletin does say this: "In many industries the volume of orders on hand appears to be large enough to sustain activity at a high level at least to the end of the year." Federal Loan Administrator Jesse H. Jones, who has shown himself to be a pretty sound business man over the years, "wouldn't worry too much" about the predictions of a slump made by some of his Washington neighbors. He interprets the drop in loan applications as one of the surest signs of better business, although he discounts the likelihood of any outright boom. He notes that although offices of the Home Owners Loan Corporation and the Federal Housing Administration were authorized several weeks ago to receive applications for small loans throughout the country, only fifty applications had come in to a total of forty offices up to the time of his remarks. Another Government agency which has earned considerable respect for its opinions is the Bureau of Agricultural Economics. Its bulletin of November 6th says that "taking into account both domestic and foreign factors, a moderate increase in industrial activity appears to be in prospect for 1940 as a whole compared with 1939." The Washington consensus is definitely optimistic for the next few weeks, uncertain about the first quarter of 1940, and confident of general improvement in the coming year as a whole. But of course 1940 is an election year.

FEDERAL OIL CONTROL . . . "I must stress the need for legislation which will assure adequate protection against avoidable waste of the oil resources of our nation." Thus spoke Secretary of the Interior Ickes in a recent Congressional request for legislation creating Federal standards of oil conservation.

California's rejection of a proposed oil control bill in the recent state balloting, together with the prospect that the Illinois state legislature will not act upon a conservation measure at its coming special session, has brought the matter to a head. With these two states producing between them more than a quarter of the nation's total crude production and with Illinois' share still rapidly increasing, state control elsewhere means little from a national conservation standpoint.

Though it is anything but monopolistic, the oil industry has long been a likely candidate for Federal regulation in the eyes of many politicos. Materialization of such regulation at length seems to be at hand. It is only to be hoped that it will be confined to those situations and areas where it is genuinely needed and that it will supplement rather than supplant state control elsewhere.

Market Near Turning Point

The long trading-range stalemate can hardly last much longer, but the soundest policy is to await the indicated direction of the market's own break-out signal before expanding speculative or speculative-investment positions.

BY A. T. MILLER

THE fortnight that has passed since our last analysis was written has brought a moderate net decline in the broad market averages—a quiet and drab performance, excepting the short period given over to bullish excitement in aviation issues and in a handful of low-price speculations immediately following the long anticipated repeal of the arms embargo.

The most interesting technical aspect of the recent movement centers in the fact that by Thursday of last week the general run of industrial stocks had definitely penetrated a lower resistance level which had been maintained for approximately six weeks, although holding above the low of September 18, which still stands as the farthest point of retreat from the top reached on the short and sensational war advance. The rail average, which made its September high well after the industrials, sagged to a new low of secondary reaction by the margin of a bit more than half a point. For the first time in some weeks, volume was heaviest in periods of weakness.

It is quite possible that the dreary stalemate of the past two months is on the verge, as this is written, of being definitely broken by a sizable reaction—but the technical evidence is by no means clear-cut as yet. On Friday, closing session of a week broken by two Stock Exchange holidays, the market had a cordial invitation to get on with the business of reaction and develop convincing momentum, but it elected to rally and close with a fair gain after extending the preceding decline by only a modest degree. Starting the present week, action was still desultory and inconclusive.

Thus it remains a market disappointing and puzzling alike to bears and bulls; a market without positive conviction as to what either the near future or the longer future holds in store; a market in which the safest speculative course is to guard existing commitments with stop-loss protection and to defer new purchases until the averages either advance, on rising volume, above previous highs represented by the 155-156 resistance level, Dow-Jones, or give some evidence of completing a secondary reaction somewhere within the range 147-139. Meanwhile there is little or no basis for a reasoned opinion as to the near term trend, although conceivably positive evidence on the side of reaction or of safe withdrawal from the immediately ticklish technical spot may be forthcoming, even before this analysis reaches its followers. In any event the stalemate, already more than two months old, can hardly last many weeks longer.

Nothing in the action of the market to date nor in the visible economic and financial factors can be interpreted as challenging the conception that the major trend is up and that in time the September highs will be exceeded. Naturally, however, we could all feel more confident of the underlying bull trend when and if it is given renewed technical confirmation—for despite the favorable business picture and the fundamental background of expansionist monetary-credit forces, the longer range outlook in this topsy-turvy world is puzzling.

Before speaking of investment policy here, let us say that we define "investment" as the art by which one seeks to preserve capital and obtain from it the maximum income consistent with safety; and that this problem of buying income, difficult as it may be, is a wholly different and far simpler matter than the speculative-investment objective of longer range capital appreciation. Under the conditions which have prevailed for the two years or more following the collapse of the first New Deal recovery cycle—and which still prevail—the speculative-investor has not been able to make money by buying stocks "for the pull," for it has been a jitterbug market with phases of major advance concentrated in remarkably short periods of time.

In this kind of market—in contrast to the sustained, orderly upward crawl of the bull movement of 1935-1936—the worth while advances are preceeded by weeks or months of technical and psychological preparation. There is a sudden stampede of buying originated preponderantly by such professional elements as investment trusts, fire insurance companies, investment and speculative counsel, Stock Exchange members, etc. These stampedes are touched off by news developments or by decisive technical change in the market or a combination of both.

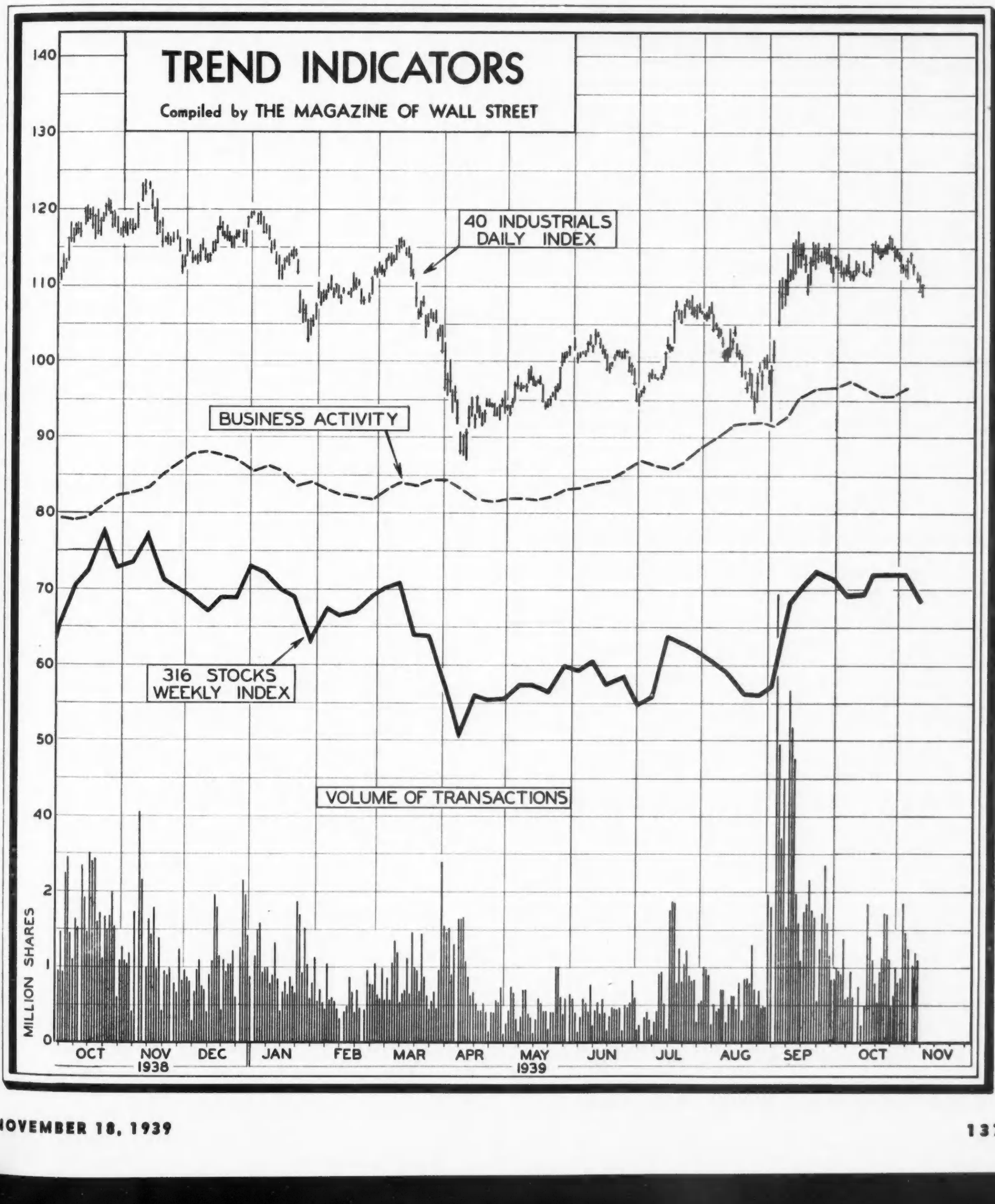
In the explosive advance in the summer of 1938 our daily industrial average advanced 31 points, or 36 per cent, from the low of June 18 to the high of July 25, with

about 80 per cent of the rise concentrated in fifteen sessions. In the post-Munich advance the maximum upward movement was 24 points, with 83 per cent of the move occurring in the first fourteen sessions. From the low of September 1, in the war speculation, the maximum rise was 25 points, or 27 per cent, all concentrated in ten trading sessions. The only exception to this kind of upside performance since 1936 was the irregular maximum rise of 21 points, or about 24 per cent, spread over sixteen weeks time between April and July 25 this year.

At present there is no visible evidence that the market is ready either for another *blitzkrieg* advance or for a sustained, creeping advance geared to enduring business expansion. In this stalemate we are hopeful enough to favor sitting tight on existing investment positions, but not confident enough to advise either new trading commitments or speculative-investment purchases for the objective of capital appreciation.

We are not sure that the Germans will initiate large scale fighting on the Western Front or that, if they should, it would necessarily prove to be the spark needed to bring the market to life. We suspect that talk of revised and higher Federal taxes has substantially increased investment uncertainty. We see nothing either bullish or dynamically bearish in the irregular downward trend of spot commodity prices which has been in progress since the third week of September.

—Monday, November 13.



Sustained Business Boom Ahead?

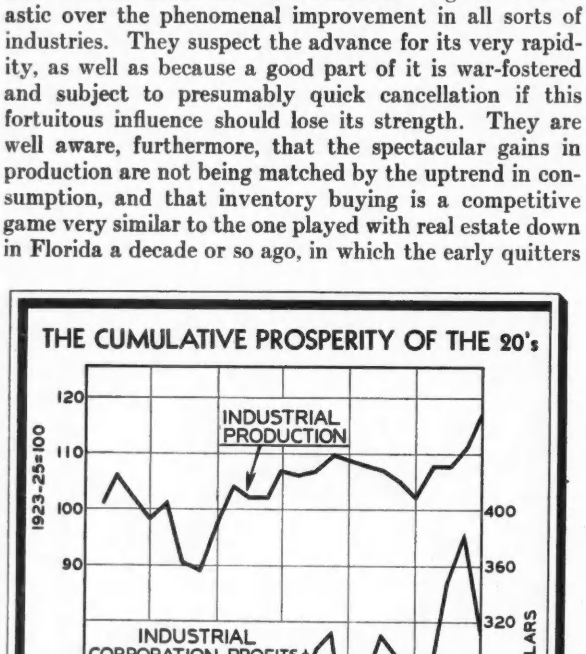
—Or Short-Lived Boomlet?

BY JOHN D. C. WELDON

THE only business pickup in the records that can match the one we have been registering in the last few months is that of 1933. The gain then amounted to 41 points in the Federal Reserve Board index of industrial production, which went from 59 in March to 100 in July. And four months later it was back down to 72, not to reach its earlier peak again for well over two years.

Consciously or not, that experience has a bearing on the reception accorded the current boom—or boomlet. Business and finance are determined not to grow enthusiastic over the phenomenal improvement in all sorts of industries. They suspect the advance for its very rapidity, as well as because a good part of it is war-fostered and subject to presumably quick cancellation if this fortuitous influence should lose its strength. They are well aware, furthermore, that the spectacular gains in production are not being matched by the uptrend in consumption, and that inventory buying is a competitive game very similar to the one played with real estate down in Florida a decade or so ago, in which the early quitters are generally the only ones to take home any winnings.

The Bureau of Agricultural Economics recently declared it "certain" that the current rate of gain in business will not be maintained throughout 1940. Now there is a statement which could meet any challenge. The current rate of gain is 8 or 9 points monthly in the Federal Reserve index, the actual figures 103 for August, 111 for September, and 120 for October. Projecting that trend would put the index up to 144 next January and to 160 in March. Considering that the all-time high in 1929 was only 5 points above the October figure, and that only seven months since records have been kept have been above 120, the likelihood that the current rate of gain will *not* be maintained must be conceded. As a matter of fact it could not be continued if every business man in the country were to multiply his orders by ten and every consumer were to borrow all his 1940 income and spend it next week. We simply haven't the productive capacity to turn out goods at such a rate immediately. Nor are we likely to find that lack a terrific handicap over the long run.



Prosperity Spreads Gradually

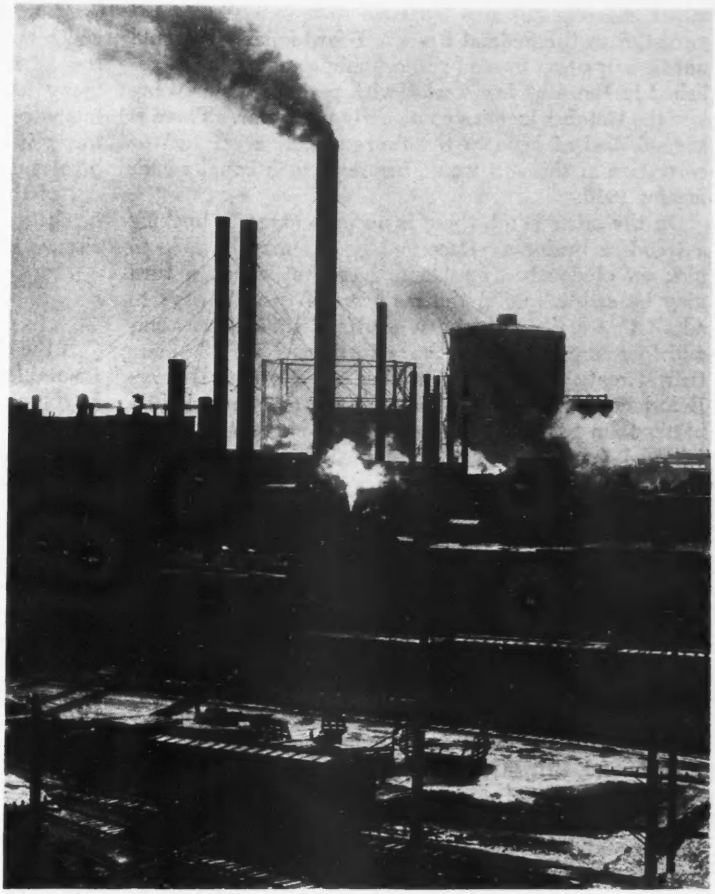
Aside from the satisfaction that comes to any analyst when he can identify and project a trend, this demand for continuous gains in the business indexes is not entirely logical. The American economy is unfortunately not the kind which can add minute fractions to its prosperity month by month over a long period of time. Overdo it, then correct the mistake—that is our way. Occasionally a high rate can be attained and held for a good many months or years, and when this can be done the practical results are eye-opening.

In the accompanying chart the years that produced this country's greatest period of prosperity are shown in terms of business activity and corporate profits. Contrary to popular memory, it was not a case of skyrocketing business indexes, although new highs were made in practically all measuring devices. The characteristic that set the period off from others before or since was the *continued* high rate of business, allowing good times to trickle through the whole industrial structure. Prosperity is like a river in a deep channel; it can rise considerably without affecting the surrounding country; once it exceeds a certain height, though, it immediately loses practically all its power to rise further, but spreads out over

the drought areas. To a substantial portion of the country the early gains are academic—encouraging but not nourishing. It is when the rise reaches a high point and stays there that the economy really begins to feel the effects through its entire system. When this takes place not only will the big steel companies be paying extra dividends but the vacant stores on Main Street will be rented.

Any predictions, therefore, that business can improve little further in the next few months are beside the point. The real question is whether or not the gains already made can be held. The situation will soon be complicated by the difficulty of allowing for seasonal adjustments in the business indexes. With a number of the heavy lines at or near capacity, allowance for a customary dip near the year end and a recovery in January will lead to the wrong conclusion. An appearance of improvement will be given even if the level should remain unchanged through December; and conversely, a static condition in the early months of 1940 will produce a downtrend in the seasonally adjusted indexes of business activity. When heavy wheels are turning at close to their maximum speed any attempt to allow for the theory that they should turn faster at one time of the year than another is obviously out of order.

Sustained production through December is almost a certainty. After that we shall run headlong into an entirely new set of considerations. Will war buying have developed to an extent sufficient to take up the slack of a short period of overproduction as far as domestic needs are concerned? Indications at the moment are fairly reassuring as to our export trade, but the perils of any lasting reliance on war demands are widely appreciated. A disappointment of major proportions in this respect would upset most calculations as to the trend of business during the next few months.



Charles Phelps Cushing Photo

St. Louis skyline.

There is no possible doubt that inventories are being and have been enlarged. Consumption can never equal the swings of production. When manufacturing activities gain suddenly after a period of general discouragement it is a safe conclusion that more goods are being produced at the moment than are being consumed. But a balanced relationship between these two vital factors can never be longer than momentary; perfect balance is hardly more than a theoretical state. At any given time the chances are strongly in favor of a production level substantially above or below consumption. Today it is above.

We have in our favor at this point the fact that a backlog of demand has been built up through conservatism and outright pessimism on the part of business over the last two years. Consumption, measured by department store sales, retail trade figures and mail order sales, is definitely ahead of late 1936, while production has only recently come up and passed the level of three years ago. As compared with that time we have a substantial amount of unfilled demands to work on before it can be said that production is not only running ahead of but has also oversupplied the demands of the consuming public.

The accompanying chart of inventories in relation to shipments brings out the essential difference between the autumns of 1938 and 1939. The situation it portrays has changed, more or less significantly, since the end of September. Commercial loans have risen, indicating a probable enlargement of inventories, and check clearings have failed to keep pace in a way that would show clearly a parallel gain in buying. (Latest figures on clearings, however, register a cheering pickup which may or may not continue.) The last quarter of 1939 is witnessing a gain of supply on demand, the proportions of which are not yet determinable.

The probable outcome of present trends may be one of three alternatives. War orders may come through in the style to which our hopes have become accustomed. Consumer demand may continue its rise sufficiently, along with higher wage payments, Government spending on armaments and relief, and a general return of confidence evidenced by such measurements as installment buying, to carry production along past the critical point that is facing it. Or the early 1940 months may register a temporary slump from the levels prevailing late in the current year.

Frankly, the last alternative is the most probable,

still measuring business by some such widely accepted yardstick as the Federal Reserve Board index. It would not be surprising to see further unimportant gains established in the next few weeks, with perhaps a slump below the October level to come early next year. There is a good deal of logic to the thought that a reaction or correction of this sort would insure a much happier ending for 1940.

On the other hand, there is no percentage in bucking a trend in business. Occasionally one may be able to pick an obviously overextended spot at which a turn may be called, but in the majority of cases it pays to admit that a rise must have good and sufficient reasons and therefore is likely to carry further. Over the more than twenty years of compiling the Federal Reserve Board index it will be found that the odds are slightly better than two to one that a gain in one month will be followed by another gain in the next month rather than a slump. That is an empirical line of reasoning, not particularly reassuring in a case like the present where the gains have been unusually sharp. But it brings out the importance of the trend, if not in the current month or two, at least in the attempt to look a bit further ahead.

Up to the present the war orders factor has been exceedingly important in the business picture, not because of actual purchases, which have been few outside the aviation field, but mainly as an impetus to prepare for the day when war shipments might interfere with domestic trade. There have been numerous inquiries from French and British sources, every indication that the Allies are potential customers. Prime Minister Chamberlain says: "The repeal of the Neutrality Act of the United States is a momentous event, for, while it affords America the means of maintaining her neutrality, it reopens for the Allies the doors of the greatest storehouse of supplies in the world."

Many Americans are beginning to wonder whether the storehouse will remain one or whether the Allies will soon make active use of it. The existence of war in Europe is a fundamentally bearish influence on world conditions which may or may not be offset by other specialized factors of a shorter term nature, such as the war orders many have been visualizing. Already the short term influence must be credited with substantial help in getting heavy industry into its full stride. But a definite disappointment in the case of war orders will not only remove one of the causes of the business pickup; it will allow to be clearly seen and felt the damage war is inflicting upon the world economy.

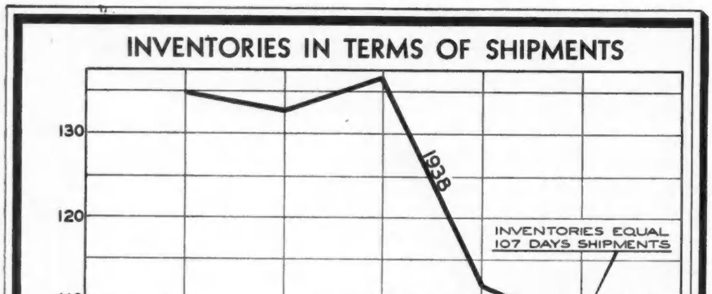
Healthy Mental Attitude

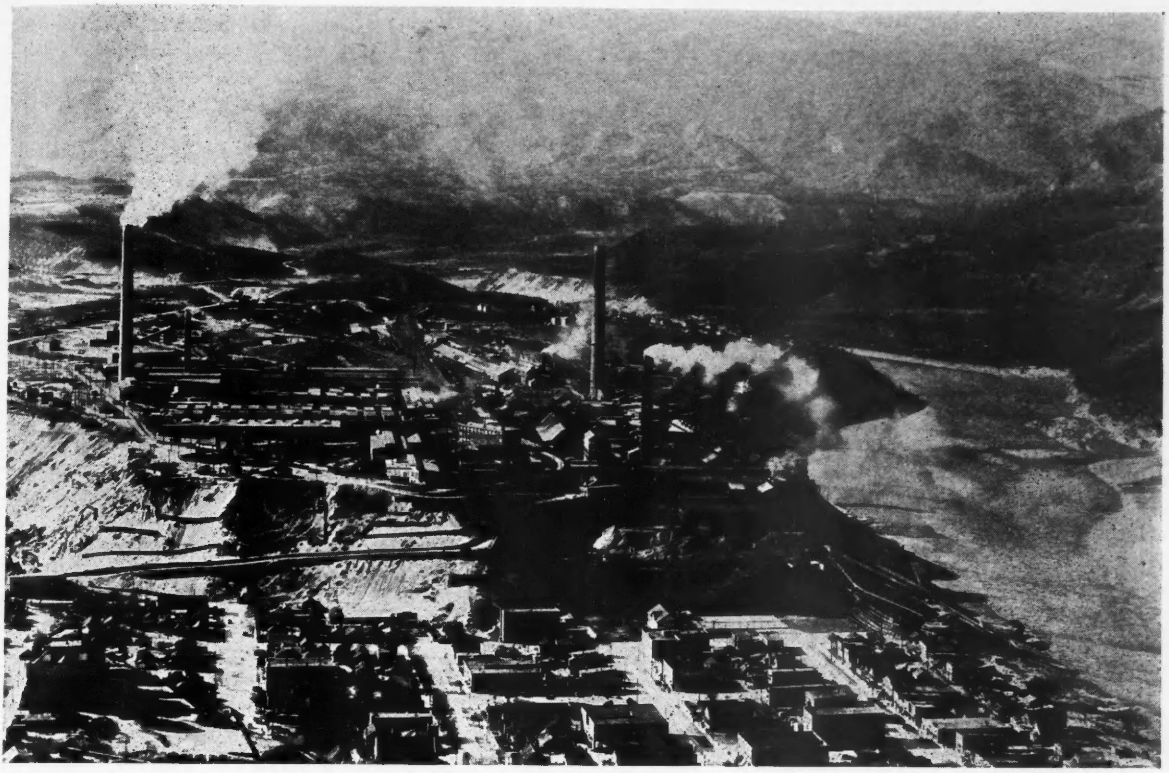
If the domestic situation were less robust in the way of favorable financial and monetary conditions, excellent buying power combined with a will to use it, and a backlog of ten years' capital replacements left in the main undone, then the possibility of a disappointment in war orders might threaten a reversal of the major trend of business. The rapid pickup in heavy industry would be replaced by a downturn which we know from experience could proceed even more swiftly. The boom of 1939 would be more painful in its liquidation than any in the past decade.

Such a danger is never entirely absent in a period of near-capacity operations but at the present time, considering the high spot at which we stand, the perils of the situation are relatively minor. One extremely reassuring development has been the attitude of business toward the boom. It is impossible to remember a comparable pickup, spread over a great many industries, which has been received so cautiously. One might almost say that business has been afraid to believe its own luck, afraid to go ahead on the normally plausible assumption that the years of semi-depression are ended. In the past, it has been this sudden feeling that all troubles were over that has caused the characteristic reaction or worse after a bulge. The sharp reactions have come as a result of the widespread notion that the possibilities of a reaction were not worth considering.

The country is psychologically prepared for a letdown of one kind or another immediately after the first of the year. Opinions as to its severity vary widely, but the fact that its coming is being faced well ahead of time should either soften its impact and cut short its duration, or, quite conceivably, postpone the trouble in its entirety until business has had a chance to work up some semblance of overconfidence.

Certainly a drop of half a dozen points in the industrial production index early in 1940 will represent no national calamity. The steel companies, for example, have been working at a pace which could hardly be maintained without construction of new plants and installation of additional equipment. All shutdowns are being avoided in order to increase output, but this could not be continued indefinitely. If policy on prices through the first quarter should prove to offer little encouragement to customers for ordering ahead, as may very likely be the case, then the (*Please turn to page* 189)





Triangle Photo

View of Consolidated Mining and Smelting's plant in the Canadian Rockies.

Canada Meets the Crisis

War Brings Industrial, Trade and Financial Changes of Present and Potential Importance to Our Own Economy

BY DR. MAX WINKLER

FORECASTING the role which Canada would be expected to play in the event of a war, and contrasting present conditions with those obtaining during the first world conflict, the Dominion Securities Corporation, one of Canada's leading investment organizations, had this to say in its Quarterly Review published in April, 1939: "Today Canada is an extensve manufacturing country, while in 1914 her value to Great Britain and the Allies depended upon her extensive raw materials. Industry in Canada could be placed upon a war basis rather quickly, and assuming that the British Navy would be able to keep open the lines of communication, industry should be exceedingly active."

The Dominion Government did not declare war upon Germany until September 10, or about a week after the mother country had severed relations with the Reich. However, on September 3, or immediately after Great Britain's entry into the conflict, the Prime Minister of the Dominion Government announced that he would seek authority for "effective cooperation by Canada at the side of Britain," adding that his country's immediate objectives included "the defense of Canada and its production facilities, the furnishing of munitions, manufactures, foodstuffs and raw materials to Britain and cooperation with her in economic pressure by control of exports and prevention of trading with the enemy."

Although war did not come to Canada as a complete surprise, and Canadian industries could be transformed to a war-time basis "rather quickly," the actual outbreak of hostilities brought about a profound change in the economic and financial structure of the country, and while the outlook may be viewed with confidence and a

Canada's Balance of Payments, 1938

(In Millions of Dollars)

	Credits	Debits	Surplus
Trade and Service Items			
Merchandise Trade	847.0	666.5	180.5
Gold (net credits)	156.5	.....	156.5
Tourist Expenditures	267.0	122.0	145.0
Interest and Dividends	70.0	312.0	242.0*
Freight Transactions	101.0	121.0	20.0*
Miscellaneous Services	24.6	59.8	35.2*
Capital Items			
New Issues Sold Abroad	89.9	.....	89.9
Retirement of Securities	.....	150.0	150.0*
Sales and Purchases	367.0	340.0	27.0
Other Capital Movements	.....	127.0	127.0*
Total	1,923.0	1,898.3	24.7*

* Denotes deficit.

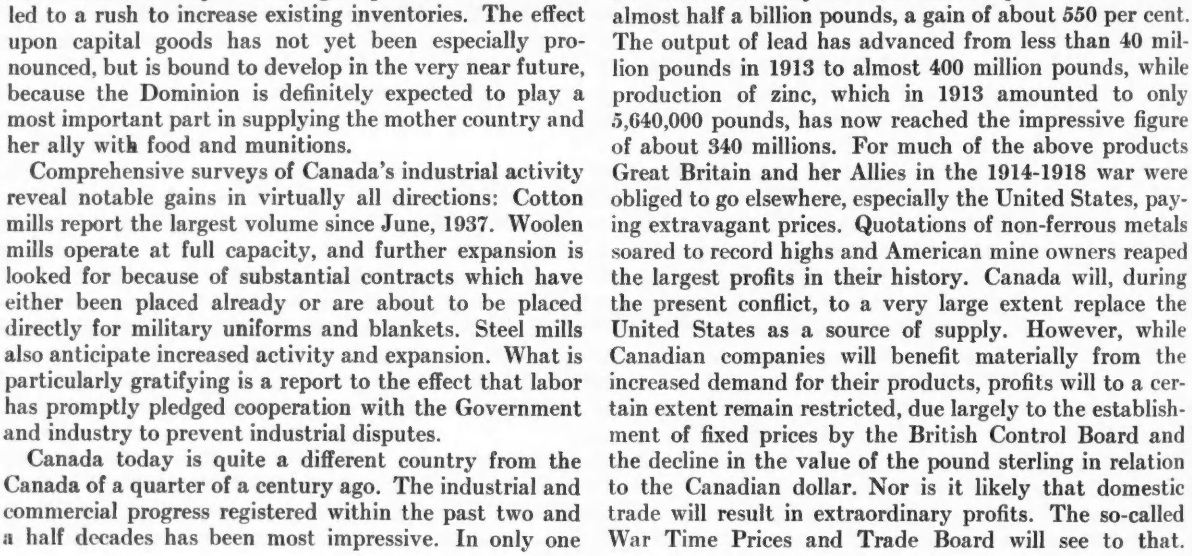
considerable degree of optimism, there are perhaps too many factors of an intangible character which render somewhat difficult at this juncture any prophecies as to the character of the immediate trend. In many respects conditions in Canada immediately after the outbreak of the war resembled the situation in the United States: A sharp gain was registered in industrial activity, with the increase particularly marked with respect to consumers' goods. The reason for this probably resided in the fact that anticipation of higher prices due to the war led to a rush to increase existing inventories. The effect upon capital goods has not yet been especially pronounced, but is bound to develop in the very near future, because the Dominion is definitely expected to play a most important part in supplying the mother country and her ally with food and munitions.

Comprehensive surveys of Canada's industrial activity reveal notable gains in virtually all directions: Cotton mills report the largest volume since June, 1937. Woolen mills operate at full capacity, and further expansion is looked for because of substantial contracts which have either been placed already or are about to be placed directly for military uniforms and blankets. Steel mills also anticipate increased activity and expansion. What is particularly gratifying is a report to the effect that labor has promptly pledged cooperation with the Government and industry to prevent industrial disputes.

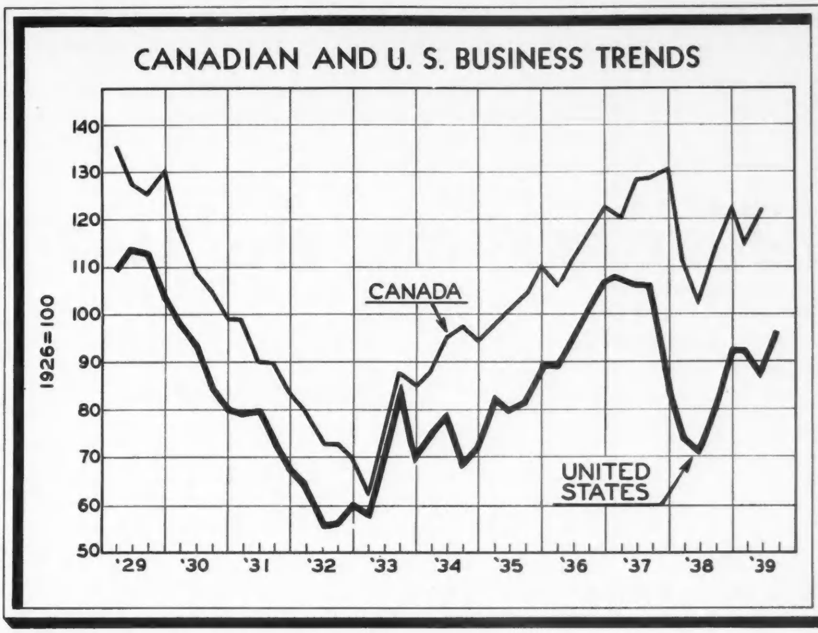
Canada today is quite a different country from the Canada of a quarter of a century ago. The industrial and commercial progress registered within the past two and a half decades has been most impressive. In only one respect the Dominion Government has not recorded the advance warranted by the vastness of the resources and the economic gains: Twenty-five years ago, Canada's population amounted to less than 7¼ millions, or only about two inhabitants to the square mile. Due to a rather short-sighted immigration policy, the population today is only 11¼ millions, or about three persons to the square mile, compared with five hundred for Great Britain and forty for the United States. It is of interest to note that the population density of Canada is lower than that of any country in the Western Hemisphere. Even Bolivia and Paraguay, whose natural resources are far more restricted than those of any other American countries, have population densities double that of Canada.

Much of Canada's wealth derives from the marked increase in mineral output. The annual production of gold has risen about 365 per cent compared with the production prior to the first World War. The output of nickel, for the supply of which the world is wholly dependent upon Canada, has increased about two and one-half times compared with 1913. Production of copper has risen from only about 77 million pounds in 1913 to almost half a billion pounds, a gain of about 550 per cent. The output of lead has advanced from less than 40 million pounds in 1913 to almost 400 million pounds, while production of zinc, which in 1913 amounted to only 5,640,000 pounds, has now reached the impressive figure of about 340 millions. For much of the above products Great Britain and her Allies in the 1914-1918 war were obliged to go elsewhere, especially the United States, paying extravagant prices. Quotations of non-ferrous metals soared to record highs and American mine owners reaped the largest profits in their history. Canada will, during the present conflict, to a very large extent replace the United States as a source of supply. However, while Canadian companies will benefit materially from the increased demand for their products, profits will to a certain extent remain restricted, due largely to the establishment of fixed prices by the British Control Board and the decline in the value of the pound sterling in relation to the Canadian dollar. Nor is it likely that domestic trade will result in extraordinary profits. The so-called War Time Prices and Trade Board will see to that.

THE CHANGING CANADIAN ECONOMY



Created by Order-in-Council on September 3, the Board controls domestic prices, especially in the necessaries of life, through the licensing of manufacturers and distributors, the fixing of maximum prices and profit margins at which such necessaries may be offered by them, and through the fixing of quantities which may be bought and sold by anybody within a prescribed period of time. The Board may even seize supplies unreasonably withheld from the market at prices fixed by a court of arbitration.



Whether increased taxation necessitated by the war will materially affect corporate profits and distributions to securities holders cannot be stated with definiteness. The principal feature of the new levies is an excess profits tax payable at the option of the business concern on the basis of a graduated scale of rates on profits on capital employed, or on the increase in profits over the average of the past four years. In the latter case, the levy will be 50 per cent of profits in excess of the average annual profits in the previous four fiscal periods. The corporate income tax which, incidentally, is to be considered as an expense in computing excess profits taxes, was increased from 15 to 18 per cent. A surtax of 20 per cent on individual income taxes was also levied in the current war budget and luxury taxes imposed on certain commodities. Additional tax receipts are estimated at $62,000,000 exclusive of the excess profits tax, the estimate being based upon the state of business during 1938

While great strides have been made by Canada in the field of manufacturing, gains might have been much more pronounced considering the advance in the resources of the Dominion. In 1913 there were some 19,210 manufacturing establishments in Canada employing 515,203 hands. The value of the output was placed at $1,165,976,000. Today there are only some 25,500 establishments giving employment to less than 600,000 people. The value of the annual output has risen to well over 2¾ billion dollars. In 1929, a smaller number of factories gave employment to about 100,000 more people and produced more than four billion dollars' worth of merchandise. There is no reason why the 1929 figures cannot once again be reached or even exceeded.

With America's stake in Canada estimated at almost 3¾ billion dollars, or more than one-third of America's total stake abroad; with American trade with the Dominion amounting to close to 700 million dollars, or about one-seventh of the nation's total foreign commerce, and with American investors, individuals as well as institutions, owning approximately $1,700,000,000 par value of Canadian government, provincial, municipal and corporate securities, or substantially in excess of 40 per cent of America's total portfolio investments abroad, it is apparent that the United States cannot view with indifference developments in the Dominion.

Substantially more than one-half of Canada's imports in 1938 came from the United States. Great Britain was a distant second, supplying only about 15 per cent. In point of exports the United Kingdom ranked first, taking about 30 per cent of Canada's total shipments, with the United States a close second, taking about 24½ per cent. In 1914, the United States supplied 64 per cent, or almost two-thirds, of Canada's imports, with the United Kingdom furnishing about 21½ per cent. On the other hand, Great Britain accounted for almost half of Canada's exports, while the United States took slightly less than 38 per cent. The two countries continue to occupy a most important position in the foreign trade of the Dominion, accounting for nearly 80 per cent of Canada's total commerce. To what extent will the present European war affect Canada's foreign trade, especially trade with the United States? The decline in the Canadian dollar of about 10 per cent is likely to affect adversely Canadian purchases in the United States, but may enhance American purchases in Canada. This should be particularly true of pulp and paper, largely because the supply from the Scandinavian countries may be seriously curtailed as a result of the British blockade of the North Sea and the Channel. With the price fixed in United States currency through the first quarter of next year, the 10 per cent premium should increase the price of the product and the profit of the Canadian manufacturers.

Export-Import Controls

Sweden, Finland and Norway export wood pulp to the amount of more than 10 billion pounds a year, compared with about one and one-half billion for Canada, while newsprint exported annually by the Scandinavian countries amounts to about one and a half billion pounds, or about one-quarter the amounted exported by Canada and Newfoundland.

Under date of September 15, far-reaching executive control over imports, exports (*Please turn to page* 192)

Happening in Washington

Public Power Plans

BY E. K. T.

New Deal advocates of public ownership of electric power facilities are seeking a new lease on life in the possibilities of war emergency and planning for national defense, and if their plans meet the approval of Congress the private utility industry is faced with a new threat of Government competition.

Schemes now being discussed in inner circles include revival of the St. Lawrence seaway and power project, construction of Government-owned steam power plants, forced retirement of obsolescent coal plants, and building of a huge super-power grid to connect important generating centers throughout the East.

Every effort is being made to keep the scheme secret but fragments are leaking out through a dozen sources as a result of a bitter scramble for prestige among top-flight New Dealers which broke at the first meeting of the rejuvenated National Power Policy Committee, the conflict centering between Chairman Ickes and F. W. Administrator Carmody. Utility leaders place sufficient credence in the reports to threaten postponement of certain construction programs.

Last spring things looked rather bad for the public ownership bloc. P W A loans and grants to subsidize construction of municipal power plants were shut off; only with the greatest difficulty did T V A get funds for new dams; the Senate amended the spend-lend bill to prevent competition with utilities; the National Defense Power Committee under the direction of Assistant Secretary of War Johnson was talking and getting utility cooperation. But the group has taken a new line of attack and appears to have things coming its way now.

Idea is for the Government to build an enormous high-tension transmission system, patterned after the British "grid" and carrying 220,000 kilo volt amperes, stretching from New England and the St. Lawrence to Port Washington, Wis., and the Illinois coal fields, through T V A to Birmingham, and back up the coast from the Carolinas, with cross grids serving the entire industrial East. Four huge Government steam plants would be built in coal fields in Illinois, Ohio, West Virginia and Pennsylvania. All important generating plants, public and private, would be required by law to tie in with the grid, the efficient ones supplying power and those rated inefficient in fuel consumption being retired. The figure of $600,000,000 has been mentioned as the cost. Conservation of coal and oil and planning for national defense are cited as justifications.

The project has not been announced, but it is not denied that engineering studies have been made and that detailed plans for such a grid have been drawn. And known facts point to the conclusion that preparations are being made to launch the grid, such as:

Canada has suddenly revived interest in the St. Lawrence, and it is reported from Ottawa that former opposition has been withdrawn. Stated reason is that more power will be needed to make Canada the arsenal for the British Empire. But it is now learned that United States State Department made a new proposal on the St. Lawrence last June. Rumor is that the British Foreign Office put the screws on Ottawa at the instance of President Roosevelt. Roosevelt has hinted lately that the St. Lawrence treaty would be resubmitted to the Senate which narrowly rejected it in 1934. It has just been revealed that in August Roosevelt asked the resignation of the International Joint Commission, ostensibly to save their salaries by replacing them with Federal employees having other duties and "specialized knowledge on certain technical subjects." There is no present market for the U. S. share of the power St. Lawrence would generate, but a grid system would supply one.

T V A is suffering from a severe drought; has had to start up obsolete steam plants to fill its contracts. It would like to tie into a super-grid to avoid such costly embarrassments.

In a speech before the World Power Conference in Washington in 1936 Federal Power Commissioner Manly outlined a super-power grid for the United States. This is the plan under consideration, with modernization.

Federal Power Commission engineers have not only studied the grid system but have estimated war-time consumption and plant obsolescence. One of the leading F P C engineers, whose opinions carry much weight in administration circles, figures that with industry operating at full production schedules there would be a power

shortage of from 29 to 33 per cent in many places and that to avoid an industrial break-down in war time there should be immediate construction of 5,800,000 kilowatts additional generating capacity in the East. Private utility men dispute the basis for this computation but can't deny the industry has laid itself open to Government ballyhoo that war would mean a power shortage because of industry complaints that Government competition has discouraged private investment. Same engineer feels that all private plants using more than the national average of 1.4 pounds of coal to generate one k.w.hr. should be forced into gradual retirement on a sliding scale of inefficiency as a conservation measure.

National Defense Power Committee has been dissolved by Roosevelt. It was dominated by conservative-minded Army and Navy men; held out the olive branch to utilities; found a need for increased capacity of 1,000,000 k.w.hrs. in industrial East; induced private industry to enter plans to add some 3,000,000 k.w.hrs. and also to standardize equipment to facilitate interconnection if need be. It rejected the grid project on the ground that the need did not justify the cost.

New National Power Policy Committee has been created to take over duties of Defense Committee and other activities. It is chairmaned by Ickes, heavily packed with public ownership advocates, snubs the military, is not cooperating with utilities.

Thus the quarterback system of Government appears to have lined up a new public ownership team to face the private utility industry with the triple threat of national defense, conservation of natural resources, and Federal spending for prosperity.

CAPITOL BRIEFS

Domestic politics comes to front again with neutrality act passed and European war stalemated. The wraps are off, and New Deal opponents are more hopeful than a couple months ago. From now on there will be more attention to internal affairs which have been mentally shelved of late.

Next session of Congress six weeks hence will take up where regular session ended in August, with revival of all controversies then raging. Conservative Democrats will continue their efforts to curb Roosevelt's powers and block expansion of radical New Deal projects. There will be strong resistance to attempts to use war emergency and national defense as a blind and bait for slipping through new social experiments. Congress is much less war-minded than Administration leaders, and the session should be more encouraging to business than any in recent years.

Wide World Photo

F. W. Administrator, J. M. Carmody. At odds with Ickes?

Administration attitude toward business has been much improved because of the job business generally has done in fighting off a war-boom psychology and in keeping prices from skyrocketing. Result is that business-baiters lack the targets they expected to shoot at. For political reasons there will be few broadside attacks on business next year, as Administration strategists want to keep the anti-business issue in the background during the next campaign.

Price trends will be watched closely by Administration even though the anticipated run-away condition has not developed. This will head up in T N E C with cooperation of other Government agencies. Only weapons are publicity, inquisition, and threat of anti-trust action, but these are powerful. Trade associations are warning members to watch out. Initial studies will start soon. T N E C probably will ask for more funds for this work but may not get them.

Mobilization plan for industry prepared by War and Navy Departments is required reading for business executives, as it shows how business would be run in war time and suggests pattern of Government action in case we get a war boom though remaining neutral. Details may change, but basic plan agreed on is for strict Government control wherever necessary for defense purposes, but as little direct Government competition as possible.

Government competition in production of arms and commodities essential for defense is a worry to many executives. Administration officials are passing the tip for business to bid for all orders and cooperate in demonstrating that private industry can and will fill all needs, thus forestalling moves by those officials who are looking for a chance to promote Government ownership or who feel the Government should operate its own plants for defense requirements.

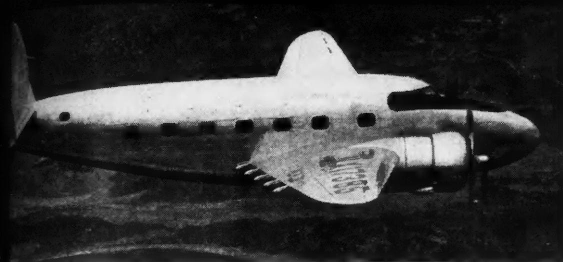
Tax revision may not be completed next year because of coming election, but preliminary plans are going forward. Treasury has completed proposals for Congress, and they are generally conservative and of a nature to help business, although total tax take will not be reduced appreciably. Treasury listened sympathetically to all business tax requests, and it is noted that now business is more united in its attitude on taxation than ever before—which argues well for removal of several provisions that tend to discourage entrance of vital investment funds into business, let alone the venture capital necessary for progress.

BY JOHN LLOYD

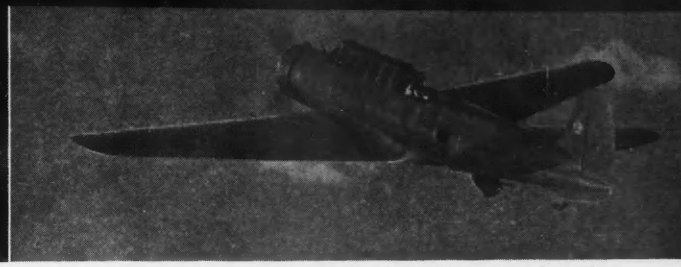
Ten years ago the air was filled with what have since seemed fantastic predictions for the future for most industries and most individual companies. The failure to live up to these hopes has been complete in the case of practically every one of the industries, and until very recently it has been most surprising in aviation. The plane in every garage, the landing fields every mile or two throughout the country which seemed so easy to visualize back in 1929 have never become facts. No aircraft maker has become a General Motors (although General Motors has gone seriously into aviation), nor has production of commercial planes ever duplicated its peak made before the depression.

Yet the moment has just about come when it can be said that the aviation industry has made good, has lived up to 1929 hopes even though private flying has not yet grown as anticipated. Aerial transport has been breaking all records, with the companies regaining their purchasing power for planes and engines. Aeronautical exports in the first nine months of this year—which means before the war began—were almost exactly equal to those for the whole decade ending in 1935. Unfilled orders on the books of the industry had come very close to $400,000,000 before including any received from the Allies since revision of the neutrality law. At last year's record rate of production the companies could keep busy from now until nearly the end of 1942 without booking a single new order. War, actual and potential, has pushed aviation into an era of spectacular success. Those who predicted great things for the industry years ago have been proven right at last, with the help of a war.

Repeal of the embargo on munitions shipments to belligerents has provided a temporary climax for months of feverish expansion on the part of both large and small builders of aircraft and engines. Beginning at the end of October a year ago the War Department stopped the release of figures on aircraft and engine production by firms which supply the Government. Estimates, however, place 1938 production at $130,000,000 and 1939 production at better than $200,000,000. The two biggest



Lockheed



Vultee

All photos in this article courtesy Aero Digest

Stockholder's Panorama of the Aircraft Industry

I. The Situation Today

II. Customers at Home and Abroad

III. Market Action of the Aircrafts

IV. Thumbnail Appraisals of the Leaders

engine makers together will soon have backlogs, if reported deals with France and England go through, larger than the whole industry's production for this year.

The United States Government is very much in the picture as it controls exports through the State Department, watching to prevent any rush to supply Europe by companies falling behind on their production for our own use, and also controlling closely the types of planes which may be sold to foreign governments. In general, we allow no planes or engines to leave the country if they represent a new development which could be highly important to us in a military sense. The models now being sold abroad are ones that have been looked over by the Army and Navy, many of them used for a year or more, and released as being unlikely to cost us any competitive advantage. They represent highly advanced fighting units, not outmoded but no longer in the experimental stage and therefore likely to satisfy the buyers who know the type of performance to expect of them.

This Government also exercises a control over profit margins on its own purchases, limiting the net return to 12 per cent and supervising the accounting. The percentage of profit, however, may be averaged over four years, so that if any losses occur on Government orders they may be included in the calculations and recouped on other items. Since the average profit margin for the larger companies is far above 12 per cent, it can be seen that sales to the U. S. have not the same importance to earnings as their proportion to total business. They have nevertheless been highly important in maintaining volume and helping to carry overhead charges.

The most vital expenses of an airplane manufacturer are its development costs, which over the past few years have been averaging fairly close to 10 per cent of gross business. Any company could have boosted its earnings for a short period by cutting down on development work and allowing profits to go straight through to net income. Having just produced a successful model, this policy might have carried a company through two or three years of seemingly excellent results. At the end of that time the planes being turned out would have been superseded in appeal to buyers and in performance by a new model of some competitor, and the company's income statements would begin to show a sudden deterioration.

No well known company has actually done that up to now, but some are going to find it almost compulsory in the near future to reduce the percentage of gross devoted to development. The tremendous increase in their orders is for planes already past the development stage; the companies are going to be too busy turning out a quantity of these planes to devote needed personnel and space and machinery to enlarged research on future improvements. Undoubtedly the same amount of such work will continue, but it will necessarily represent a smaller proportion of sales.

What this will mean to profit margins, other factors being unchanged, can be easily understood. The Aeronautical Chamber of Commerce has calculated that in the five years 1934 to 1938 the industry spent $44,000,000 or 9.4 per cent of gross on research. Aggregate profits during the same period were $27,000,000 or 5.8 per cent of gross. In all that time there were very few planes produced that sold steadily year after year without important changes, none on which the manufacturers could actually apply the motor industry's production methods. There were frequent successes which added greatly to prestige for the makers but hardly did better than break even after charging off development expenses.

The search for improvements is now and will continue to be even more intensive, but in relation to the size of the business it is losing ground. The large orders currently being reported give aviation its chance to produce on a standardized basis. While not reaching the auto-

Sikorsky

Cessna

mobile assembly line technique, much of the former individual piece work will give place to specialization. New tools can be built for jobs which were until now done by hand. Parts can be manufactured either by the plane maker itself or by a supplier on a quantity scale.

The capacity limitations of the aviation industry will make necessary a growing use of the sub-contract system. Many companies will find it profitable to buy parts they had formerly made themselves, and this will have the effect of spreading the knowledge and skill involved in aircraft manufacture over a far wider segment of general industry. The Government approves this development and is encouraging it in every way possible.

The strain on capacity will be relieved somewhat by sub-contracting and to a greater extent by standardization of output, but it will still be serious. Most of the better known companies are today producing at a rate they themselves would have thought impossible a year or two ago. The first problem is how to double a rate of production already beyond all previous records. And this involves far more than building new factories and buying new machinery. It means first of all finding the skilled labor required for almost every operation in the production of an airplane or an engine. This will take time, although a good start has been made and the training of men is proceeding rapidly. Next, it means the decision as to how much of the additional income should be tied up in productive facilities in the light of the very fortuitous nature of many of the orders.

Our own Government has recently shown itself willing to consider certain expansion expenses part of the cost of production, acknowledging that its requirements may not continue at so high a rate indefinitely. But in the case of exports, even admittedly liberal profit margins would hardly repay a firm for doubling its plant investment if the war or the orders were to cease within a short time.

The answer to this particular problem will be found by each manufacturer for himself. He will have certain dependable orders on which to work; against them the capital investment necessary to fulfill them. He has a sellers' market and full realization of the temporary nature of all such markets. His ideal solution will be to manage to widen the spread between manufacturing and selling costs, at least on foreign orders, sufficiently to pay

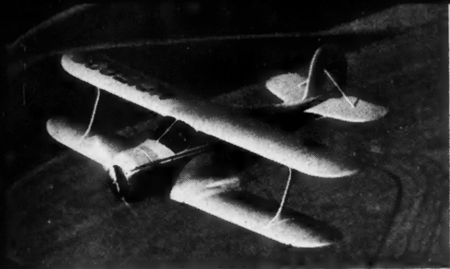
Aeronautical Manufacturers

	Capitalization	Earnings Per Share (adjusted for splitups, but not for rights or options.) 1937	1938	6 mos. 1939	Recent Price	COMMENT
Aeronautical Corp. of America....	65,938 shs. common 15,000 warrants	def.	def.	.57 (7 mos.)	5 bid	Maker of "Aeronca" planes is planning offer of additional common stock.
Aero Supply Mfg. (Class B stock)..	13,693 shs. Class A 412,461 shs. common (B)	$.52	$.22	$.09	5	Makes fuel pumps, precision instruments, and screw machine products—business divided between aeronautical and automotive industries.
Aviation Corp. (Del.)............	3,703,667 common	d.16	.07	d.36	9	Army and Navy business increasing—developing high power engine for Army.
Beech Aircraft..................	337,361 common $75,000 5% serial notes	.06	d.01	d.18a	12	Gaining recognition as a builder of specialized planes to meet individual requirements.
Bell Aircraft....................	250,000 common	.25	.33	NF	25	Producing planes for Army with speeds up to 400 m. p. h.
Bellanca Aircraft................	224,750 common	.69	.99	NF	10	Foreign military orders to second rate powers major part of business.
Bendix Aviation Corp...........	2,097,663 shs. common	1.08	.07	1.47a	31	Sales of parts and instruments to both automobile and plane makers are improving.
Brewster Aeronautical............	446,625 common	.06	.66	NF	10	Ezperiments with radio controlled planes successful.
Grumman Aircraft...............	474,060 common	.32	1.30	NF	17	Backlog $4,600,000 in August, equal to about one year's production at current rates. Navy business important.
Menasco Mfg....................	588,095 common	d.07	d.25	NF	2½	Produces an air-cooled in-line engine as well as a diesel for aviation use.
Republic Aviation............... (formerly Seve:sky)............	28,000 "A" 1st pfd. (conv.) 200,000 2nd pfd. 799,998 common	d2.09	d.95	NF	7	Backlog almost doubled by recent orders reported received from foreign neutral sources.
Sperry Corp.....................	2,015,565 common	1.46	2.46	1.23	49	New bookings understood to be running in excess of shipments, constantly setting records in unfilled orders.

a—9 months. b—Fiscal year. d—Deficit. NF—Not available.

See pages 152 to 155 for Thumbnail Appraisals of—

BOEING AIRPLANE
CONSOLIDATED AIRCRAFT
CURTISS-WRIGHT
DOUGLAS AIRCRAFT
LOCKHEED AIRCRAFT
GLENN L. MARTIN
NORTH AMERICAN AVIATION
UNITED AIRCRAFT



Beechcraft

Stearman

for the bulk of his temporarily increased plant additions.

Expansion of plant, equipment and personnel can hardly be said to lie ahead of the industry. It is surrounding it. When it has gone too far, or when the demand for military planes falls off, the sellers' market will suddenly cease to exist and there is no doubt but that some of the companies which have bravely over-extended will be hurt. The market aspects of such a possibility will be considered later, but strictly on the basis of aviation as a business in its biggest growth stage, any attempt to predict an early disappointment or a frustration of present plans for all kinds of new records would seem at least premature. Sales, earnings, and importance as an industry in its own right are gaining altitude steadily.

II. Customers at Home and Abroad

In the five years ended in 1938 the aircraft manufacturers did a gross business of $468 millions. Over 30 per cent of this production went abroad in the form of military and commercial equipment, less than 23 per cent was bought in this country by private flyers and transport companies, and almost 47 per cent went to the Government. If the aviation industry is to be classed as a war baby, its nurses through the most difficult years of its infancy have been the Army and the Navy with some slight help from other services.

The record of the Government as a customer is an impressive one. In the fiscal year to June, 1930, aviation appropriations came to $66 millions; in this current period $383 millions have been set aside and more will probably be spent. Not all of either sum is a direct aid to the manufacturers, since landing fields, maintenance and auxiliary equipment consume a substantial portion of the funds designated for aviation. Even these, however, are important indirect benefits to the flying game and the aircraft makers.

If one were to tell the typical story of a successful manufacturing company it would probably start with a small group of men just out of one of the flying services twenty years ago. They have an idea for a better plane, decide to enter a competition sponsored by the Government, the winning plans to be rewarded with a contract for construction. After a try or two, if they do not go broke, their plans win, they get the contract and on the strength of that manage to finance a plant of a sort. With the ice broken, they enter a model in a competitive flight, use the publicity to sell a plane or two, and keep on drawing plans for the Government. Through good years and bad their only reliable business is Federal, their chief source of capital either direct payments from the United States or borrowings on prospective payments.

Now grown to a size comparable with prominent industrial corporations, the typical company no longer has trouble getting either capital or business. It still, however, finds the Government the nearest thing to an ideal customer. There are stricter limitations on profits now, and close watch to see that no other interests come first, but the amounts spent are growing almost geometrically. We mentioned the appropriations of ten years ago as totaling $66 millions, that of the fiscal year ending next June as $383 millions, and it would undoubtedly be conservative to estimate the next appropriation as substantially higher than $500 millions. That represents, from the one customer, a volume more than seven times greater than total business of all kinds, military and civil, domestic and export, in 1929. It is sixteen times the volume of 1932, almost four times that of 1938.

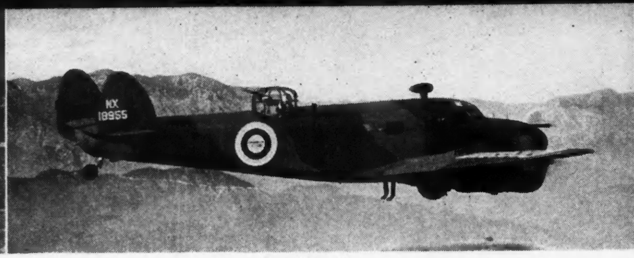
But true to form, luck is coming from several other directions at the same time. The transport companies have been breaking all records in passengers and express carried for the last few months. Lines that had been finding it difficult to break even are rolling up good-sized earnings which, for the first time in years, suggest equipment purchases as being immediately and lastingly profitable. The president of the Air Transport Association is worried over the fact that some $25,000,000 in orders placed by members have not yet been filled and may be delayed by the press of other business. Thus, though private flying is still a negligible factor, the commercial domestic business is adding its weight to the forward thrust supplied by military demands.

Both Government and transport company purchases have been looming into sight gradually, therefore they have smaller dramatic value than the buying from belligerent nations concentrated within a few days after our revision of the neutrality laws. This has been news long expected but nevertheless powerful in its appeal to the imagination. Any foreign customer is a good customer, in the sense that he can be made to pay full price or more for a model whose development costs have already been charged off against sales during the first year or two of its existence. As far as military craft are concerned, exports consist almost entirely of planes falling within this

Major Destinations of Aeronautical Exports

	1937	1938
Argentina	$4,404,000	$6,187,000
Brazil	1,675,000	1,947,000
China and Hong Kong	4,444,000	7,605,000
France	201	879
Germany	1,078,000	591
Japan	2,484,000	11,062,000
Netherlands	2,954,000	3,279,000
Netherlands Indies	547,000	8,495,000
Turkey	2,450,000	3,160,000
United Kingdom	1,729,000	3,916,000
U. S. S. R.	3,213,000	5,171,000
Total, including rest of world	39,404,000	68,209,000

North American



Lockheed

Curtiss

class, principally because the United States is allowing no new and advanced designs to go out of the country to even the most friendly powers. Profit margins on exports are among the best.

Four consecutive days early in November witnessed the reporting of almost $200 millions in new orders for six leading aircraft manufacturers. Douglas got $30 millions, bringing its backlog of unfilled orders to $75 millions. Curtiss-Wright got $60 millions, new backlog $110 millions. Lockheed's additional orders of $6 millions raised its unfilled orders to $30 millions. Republic, formerly Seversky, added a $4 million order, not with one of the belligerents, but bringing its backlog to $10 millions or ten times its size at the beginning of the year. The new plum for United Aircraft was $70 millions, backlog now $115 millions. North American was reported to be on the point of signing up a contract involving $20 millions which would put $47 millions of work among its immediate assignments.

The two largest order backlogs mentioned are practically equal to this year's output of the entire industry.

To a certain extent these orders coming in a spectacular bunch were a relief from the predictions that Europe would be able to get along without our planes. It had been pointed out that the Allies were stepping up their production almost perpendicularly and would be unlikely to encourage dependence upon American supplies which might at any time be cut off by a change of popular sentiment concerning the advisability of armament sales abroad. It seemed logical that Britain would prefer to build up an aviation industry in Canada, "Arsenal of the Empire," where she plans to train her pilots. It still seems so. But practical considerations have so far worked in the favor of American manufacturers.

Most important in either short or long term view are the relative merits of our planes. We have heard a great deal about the speed and efficiency of German, Italian, even Russian aircraft. The world speed records bear out their accomplishments. But it happens that speed is secondary to other qualities when ships meet in combat. American aviation engineers have somehow or other always held in high esteem the "feel" of a plane. A famous Douglas model has been known as "sweet" all over the world, though it has changed back and forth from civilian to military uses. Something of the prestige of the clipper ships of years ago has become attached to our transports as well as bombers and fighters.

Proof of this is to be had in the reports of the latest aerial engagement of any consequence along the Rhine. Twenty-seven German planes came over and nine French craft went up after them, according to official French reports. No details on the machines the Germans were using are available. But if rated speed alone were considered, the Frenchmen would probably have been conceded no chance. Nevertheless the nine French planes brought down seven Germans within their own lines and two on the other side without losing a machine, and the deciding factor was without a doubt the superior ability to maneuver. The French planes were made by Curtiss.

The answer seems to be that the Allies *will* want American planes, just as they have in the past. Their orders will probably continue to flow in or perhaps trickle in, depending on the nature and duration of the war. The Associated Press reported while Congress was considering the question of arms sales that Great Britain and France would place orders for 5,750 planes the instant we legalized shipments. It is too early to talk in specific units and costs, but any such figures must be mistrusted no matter how good the source. And regardless of the potential demand, actual orders discountable at the bank will be subject to the ability to deliver within the near future, something which none of the larger companies would care to guarantee, so far as additional business in would care to guarantee, so far as additional business in the next few months is concerned. Orders have actually reached a size which discourages additional placements except with smaller companies or those just entering the field. Neither Great Britain nor France feels sure enough of the length of the war to enter binding commitments for a year or two ahead.

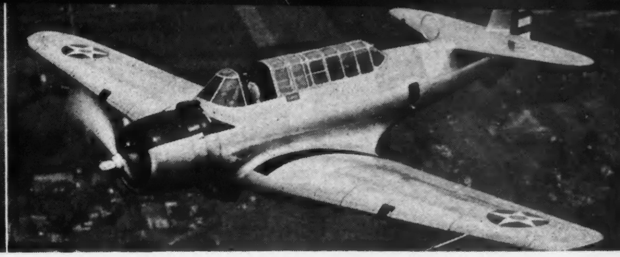
There is only one completely descriptive word for the business that is now coming to the aircraft companies from the belligerents. It is a windfall, pure and simple. It may continue for several years or disappear as swiftly as it came. Without attempting to guess the chronology of the war, one thing appears very probable. It is that the eventual peace will end temporarily or at least slow down the armament race, and that means a reversion to our own former policy of encouraging new developments in aircraft but refraining from volume purchases. Bonanza days of taking orders at any price will be definitely over until the world regains the strength to take up the cudgels again. The start of a war is always a bad sign for the armament makers, who have less to lose through peaceful hos-

Value of Aircraft Exports

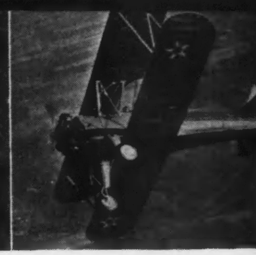
(millions)

	1926	1929	1931	1933	1935	1937	1938
Planes	$ .3	5.5	$1.8	$5.4	$6.6	$21.0	$38,0
Engines	.6	1.4	1.5	1.5	2.5	6.0	7.9
Instruments, parts, etc.	.1	2.2	1.6	2.3	5.2	12.4	22.3
Total	1.0	9.1	4.9	9.2	14.3	39.4	68.2

Grumman



Vultee



Stearman

tility than through actual conflict which must end in exhaustion.

Long term hopes for the aircraft industry need not be lowered because for the moment the "war baby" aspect is to the front. New lines of transport are being established even in this doubtful year 1939. Neutral nations are making large appropriations for war planes at the moment, but they will be only too eager to put equal amounts into subsidies for transportation when they see security ahead. The American people take great pride in their pioneering role in aviation and will push farther afield despite the interference of wars and revolutions. The urge to rebuild our merchant marine is to a great extent an expensive anachronism. We were great once on the seas, but now have to compete with cheap foreign labor in building and manning our ships. It is consistent with our national temperament to prefer the new field, the sky, where we can prevail not by doing the job more cheaply but by doing it better.

III. Market Action of the Aircrafts

There are only two classes of investors or speculators in the United States today—those who own aircraft stocks and wonder if they should sell them, and those who have none and wonder if they should buy them.

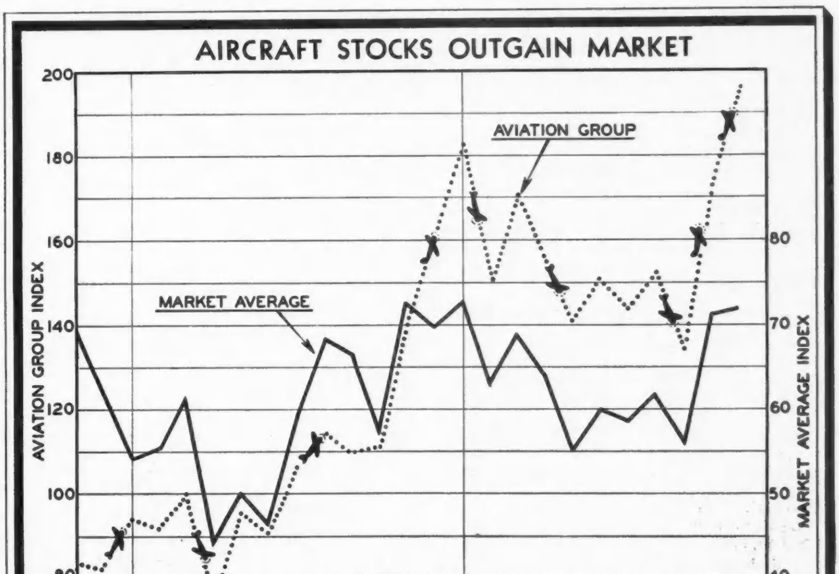
No matter how conservative a person may be, he cannot help responding to the reports of doubled and tripled volume at unquestionable profit margins which have suddenly inundated the aviation field. The news is good, the record is good, the outlook is good, yet these stocks are obviously 'way up and they are vulnerable to any change in the situation. Everything must go according to the optimistic schedule laid out if current or higher prices are to prove justified.

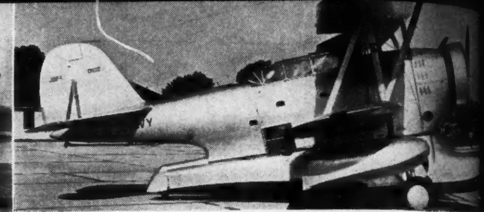
To take one specific example, consider North American Aviation. There is probably no unit in the industry better qualified from the stockholder's viewpoint, none nearer the potentialities which faced the automobile companies in 1910. Combining production efficiency with a salable product, North American has the two requisites which should and undoubtedly will mean success. Yet the stock is selling at 28 and two years ago it could have been bought at 3. Last year the low was 5⅞. This year the company has paid $1.40 in dividends, almost half the price of the stock in 1937.

Buying the stock at 3 was far easier than deciding whether to sell it at 28. Admitting it as a valued member of the aircraft group charted herewith, one can see the danger of an extended position no matter how soundly taken. Over the long run many of these stocks will make progress—possibly phenomenal. But at the moment the fact can not be glossed over that however phenomenal the improvement in business for the general run of aircraft makers, the improvement in market price has been more so.

The aviation group shown in the accompanying chart has made a new all-time high, though it includes airlines which generally exercise a restraining influence. The public—stock-buying, traveling and otherwise—has become air-minded. The normal sequence of events would require that the multitudinous following of the plane manufacturers should be disappointed some time in the near future, either in market action or in more fundamental developments.

Aside from an early ending of the war, the principal danger spot seems to be that the present large backlogs of most companies will discourage orders for them until the need has passed. If orders show signs of falling off, the backlogs won't help. Every owner of the aircrafts realizes his vulnerability and will try to beat his neighbor to the profits if trouble develops. Action of certain issues in recent market sessions (*Please turn to page* 194)





IV BOEING AIRPLANE CO.

BUSINESS: Since 1936 the Seattle division of this unit has specialized in the development of four-engined planes and the famous "Flying Fortress" bomber is one of its outstanding models. An even larger bomber has since been delivered to the United States Army. The basic design of these new planes he been adapted to the construction of huge land transports and flying boats, and this has resulted in restoration of the company to the commercial field after a lapse of several years. Boeing is an outgrowth of United Aircraft & Transport Corp. and the present organization was thus incorporated in 1934.

FINANCIAL POSITION: Despite a lower volume of sales, inventories gained over 90 per cent to $6,982,721 during 1938, while cash dropped $1,847,063 to $576,729. Ratio of current assets to current liabilities was 2 to 1. Sole capitalization consists of 721,958 shares of ($5 par) common stock. Until late 1937 financial resources were limited, but sale of stock at about that time bolstered working capital some $3,750,000. On October 26, 1939, a five-year loan up to $5,000,000 was arranged through banks and R. F. C. to provide working capital. Collateral for loan included mortgage on planes and equipment valued at $1,750,000.

OUTLOOK: Earnings are largely dependent upon the volume of sales and heavy dependence upon military orders lessens effect of cyclical fluctuations. Large experimental costs of new models often leads to considerable distortion of earnings. As of October 1, 1939, unfilled orders amounted to over $26,000,000 compared with $12,000,000 on September 1, 1939.

MARKET ACTION:

	Boeing	Market Average	Boeing's moves in relation to avge.
'37 high to '38 low....	62% decline	64% decline	3% narrower
'38 low to '38 high....	89% advance	76% advance	17% wider
'38 high to '39 low....	53% decline	34% decline	56% wider
'39 low to '39 high....	108% advance	44% advance	146% wider

Average volatility on four moves 54% greater than M. W. S. index of 316 common stocks.

COMMENT: Recent price—27. Of late these shares have been somewhat laggard during upward movements of the aircraft division. It follows rather than leads the list of these stocks, which may be partly due to the financial condition of this unit as compared with other companies.

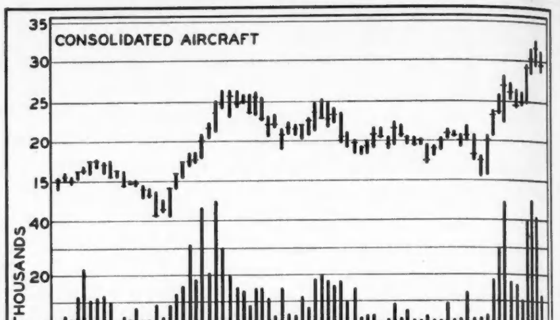
Long Term Record

	Net Sales (millions)	Net Income (millions)	Net Per Share	Unfilled Orders as of Dec. 31 (millions)	Price Range
1934.........	$1.1	d$.2	d$.43	$.7	11¼- 6¾
1935.........	1.2	d.3	d.64	6.1	22½- 6⅛
1936.........	2.3	.1	.32	8.9	37⅜-16⅞
1937.........	5.5	.3	.45	14.1	49¾-16
1938.........	2.0	d.5	d.77	14.8	35⅞-19
3 mos. ending March 31, 1939	....	....	....	....	34¾-20⅝
6 mos. June 30, 1939.	....	d.2	d.25	....	24½-17⅝
Sept. 30, 1939.	....	....	....	....	29 -16¾

d—Deficit.

Thumbnail Stock Appraisal

CONSOLIDATED AIRCRAFT CORP.



BUSINESS: For several years has been an important producer of military planes with United States Navy as its principal customer. Among the more outstanding models are the two- and four-engined patrol bombing planes, which are understood to be highly regarded by the Navy. Importance of commercial business has declined, and in 1938 accounted for only about 11 per cent of net sales, whereas in 1934 this outlet took almost 50 per cent of total output.

FINANCIAL POSITION: A minority holding of 20,000 shares is maintained in Fleet Aircraft Ltd. of Canada. Capitalization consists of 23,820 shares of $3 non-cumulative convertible preferred (conversion at rate of 1 share of preferred into 2 shares of common) and 574,760 shares of ($1 par) common. Financial position is sound with current assets $5,225,715; cash, $3,586,478 and current liabilities $1,554,491. Ratio of current assets to current liabilities: 3.3 to 1.

OUTLOOK: Practice of company to defer profits on related contracts until they are virtually completed has tendency to inflate net income one year and drop it drastically in another annual period. Large dependence of this unit in the past on Navy orders, especially in view of present government expansion of military and naval aircraft facilities, places it in an immediately favorable position. Recent orders backlog reported at $17,000,000 largely for Army and Navy.

MARKET ACTION:

	Consolidated Aircraft	Market Average	Consol. Aircraft's moves in relation to average
'37 high to '38 low....	69% decline	64% decline	8% wider
'38 low to '38 high....	151% advance	76% advance	99% wider
'38 high to '39 low....	49% decline	34% decline	44% wider
'39 low to '39 high....	102% advance	44% advance	152% wider

Average volatility on four moves 76% greater than M. W. S. index of 316 common stocks.

COMMENT: Recent price—29. Somewhat more erratic marketwise than list and more independent in its movement than rest of aircraft shares.

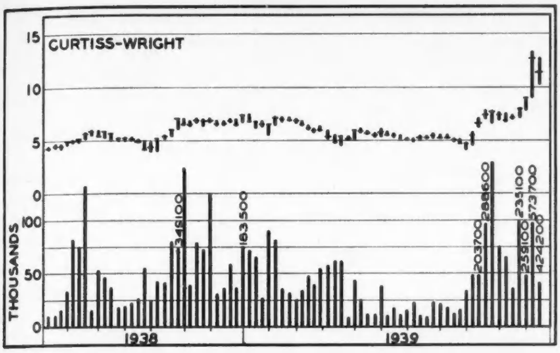
Long Term Record

	Net Sales (millions)	Net Income (millions)	Net Per Share	Unfilled Orders as of Dec. 31	Price Range
1929.........	....	$.9	$1.64	....	44⅝-13¼
1930.........	....	.1	.22	....	27⅞- 6½
1931.........	....	d.1	d.31	$2.3	10¾- ¾
1932.........	$1.2	d.3	d.55	1.1	4¾- 1
1933.........	2.3	d.009	d.02	2.8	12 - 1
1934.........	1.4	.006	.01	4.9	12⅞- 6½
1935.........	2.8	.3	.56	8.9	18 - 7
1936.........	4.0	.2	.29	18.1	24⅜-14¾
1937.........	11.9	.4	.68	13.9	33¾- 8
1938.........	12.2	1.5	2.55	2.7	26⅜-10½
3 mos. ending March 31, 1939	....	....	....	....	25½-18¾
June 30, 1939.	....	....	....	....	22⅜-17
Sept. 30, 1939.	....	....	....	....	26⅛-16½

d—Deficit.

Thumbnail Stock Appraisal

CURTISS-WRIGHT CORP.



BUSINESS: This is one of the leading aeronautical enterprises in the world. Makes both military and commercial planes as well as aircraft engines. Latter constitutes its most profitable activity, and the "Cyclone" and "Whirlwind" engines are among the best both in this country and abroad. Military planes include pursuit, attack and bomber models as well as scout-bombing and scout-observation for the Navy.

FINANCIAL POSITION: Capitalization consists of 1,158,464 shares of $2 non-cumulative Class A stock and 7,429,118 shares of ($1 par) common stock. In 1938 some $2,651,000 was expended for additional plant facilities. As a result of greater volume of business, inventories rose to $10,506,000, or an increase of $3,452,000. Cash declined somewhat while receivables were virtually unchanged. Ratio of current assets to current liabilities stood 2.2 to 1.

OUTLOOK: Because of the excellent performance of both planes and engines this company has of late receved a major portion of total allotments placed by the U. S. Army and Navy. In October a new observation monoplane capable of being used interchangeably on land or sea was introduced. Unfilled orders recently estimated in excess of $45,000,000.

MARKET ACTION:	Curtiss-Wright	Market Average	Curtiss-Wright's moves in rel. to avg
'37 high to '38 low....	63% decline	64% decline	2% narrower
'38 low to '38 high....	127% advance	76% advance	67% wider
'38 high to '39 low....	43% decline	34% decline	26% wider
'39 low to '39 high....	212% advance	44% advance	382% wider

Average volatility on four moves 118% greater than M. W. S. index of 316 common stocks.

COMMENT: Recent price—11. Despite the large number of common shares outstanding these fluctuate with approximately the same volatility as those of most of the other units. Thus from a percentage on money invested viewpoint the final result should be in keeping with that of the rest of the industry.

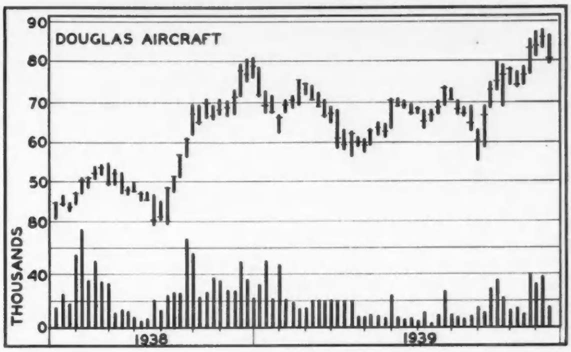
Long Term Record

	Net Sales (millions)	Net Income (millions)	Net Per Share	Unfilled Orders as of March (millions)	Price Range
1929.........	$26.0	d$1.9	d$1.89	(1) $10.0	30½- 6⅜
1930.........	19.3	d9.0	d7.92	(1) 12.2	14⅞- 1¾
1931.........	21.6	d4.1	d3.62	(1) 7.7	5⅞- 1
1932.........	12.4	d.6	d0.52	Not reported	3¼- ⅞
1933.........	10.4	.1	.12	5.3	4⅜- 1½
1934.........	14.0	.3	d.29	6.5	5¼- 2⅛
1935.........	11.1	.002	d.34	7.7	4⅝- 2
1936.........	18.9	1.0	d.17	12.5	9¼- 4
1937.........	24.1	1.9	d.05	17.6	8⅜- 2
1938.........	33.1	3.5	.17	29.4	7⅜- 3¼
3 mos. ending Mar. 31, 1939..	....	1.6	.15	31.5	7½- 5
June 30, 1939.	....	1.6	.15	....	6⅛- 4½
Sept. 30, 1939.	....	1.2	.8	....	7⅞- 4¼

d—Deficit. (1)—As of Dec. 31.

Thumbnail Stock Appraisal

DOUGLAS AIRCRAFT CO., INC.



BUSINESS: Important maker of both commercial and military planes and is considered an outstanding unit in the industry. Has successively developed the DC-2's and DC-3's and DC-4's. All of these are commercial models, the latter being a four-motored super air liner with a capacity of 42 passengers and a gross weight of 32½ tons. In 1937 the Northrop Corp. was acquired.

FINANCIAL POSITION: Sole capitalization consists of 570,680 shares of (no par) common stock. Profit margins though changing considerably from year to year are among the most satisfactory in the industry. Financial position is sound with current assets $12,151,661; cash, $5,444,814 and current liabilities, $4,039,831. Inventories though somewhat higher than previously were by no means excessive. Working capital ratio stood 3.3 to 1.

OUTLOOK: During the 17 years of company's existence, i.e., up to end of 1938, it has delivered 2,326 planes. Of these 74 per cent were sold to U. S. Government, 12 per cent to domestic transport service, 9 per cent for military export and 5 per cent for commercial export. This broad diversification of markets gives this organization an unusually strong basis. On Nov. 3, 1939, unfilled orders were reported at $75,000,000. It was stated bulk of these orders were for DC-3's and sleepers, which are used both in the United States and abroad.

MARKET ACTION:	Douglas	Market Average	Douglas Aircraft's moves in relation to average
'37 high to '38 low....	60% decline	64% decline	6% narrower
'38 low to '38 high....	160% advance	76% advance	110% wider
'38 high to '39 low....	32% decline	34% decline	6% narrower
'39 low to '39 high....	58% advance	44% advance	31% wider

Average volatility on four moves 32% greater than M. W. S. index for 316 common stocks.

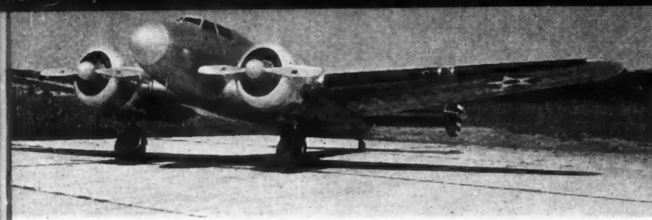
COMMENT: Recent price—80. Though fluctuations of these shares appear greater than average, recent swings have been limited on the downside. Issue is more stable than typical aircraft stock.

Long Term Record

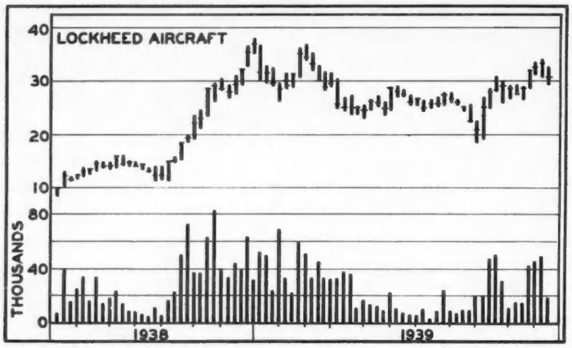
Years Ending Nov. 30th	Net Sales (millions)	Net Income (millions)	Net Per Share	Unfilled Orders (millions)	Price Range
1929.........	$2.5	$.4	$1.19	$2.4	45½-12¼
1930.........	4.0	.6	2.02	3.3	23½-11¾
1931.........	3.8	.5	1.60	2.1	23½- 7¾
1932.........	2.3	.07	.20	1.7	18⅝- 5
1933.........	2.1	.04	.10	6.0	18¼-10¼
1934.........	5.2	.03	.08	(1) 9.4	28½-14¼
1935.........	7.3	1.2	2.70	12.0	58⅜-17½
1936.........	7.8	.9	1.74	24.5	82¼-50⅝
1937.........	20.9	1.0	1.90	31.2	77¼-26½
1938.........	28.3	2.1	3.76	22.5	78⅝-56
3 mos. ending Feb. 28, 1939..	6.4	.7	1.35	....	78⅝-58
May 31, 1939.	5.3	.6	1.10	....	71 -56
....	....	....	....	....	79¾-55

(1) Includes Northrop Co.

Thumbnail Stock Appraisal



LOCKHEED AIRCRAFT CORP.



BUSINESS: From 1932 to 1938 manufactured commercial planes, but in that year greater part of facilities were turned to production of military craft. Models 12 and 14, six and eleven passenger commercial planes, respectively, were adapted to military use. These have been so satisfactory that in mid-1938 the British Air Ministry placed an order for some $32,000,000 of model 14. New designs have been developed with result that U. S. War Department has awarded orders for these models. Vega Airplanes Co., a subsidiary, makes airplanes and parts as well as undertaking certain engineering work for the parent organization.

FINANCIAL POSITION: As of June 30, 1939, outstanding long term liabilites amounted to $1,219,954 and there were 775,000 shares of ($1 par) common stock outstanding. Short term notes payable came to $1,256,666 against $248,071 a year previously. Cash of $1,169,913 was $804,372 greater than a year ago, while notes receivable gained $1,015,323 and inventories $4,082,301 in the same period. Ratio of current assets to current liabilities was 1.6 to 1.

OUTLOOK: Recent price—30. Because of the outstanding debt obligations of this unit its position in the face of unexpected adverse conditions might be impaired. However, its products are highly regarded both in this country and abroad and a continued satisfactory flow of orders could do much to improve its financial position. Press reports tell of high consideration for these models, particularly by French air authorities as a result of highly satisfactory performance on Western front in recent air duel with the Germans. As of September 30, 1939, unfilled orders were better than $30,000,000. For the first nine months of this year sales were reported as 200 per cent ahead of the corresponding part of 1938.

MARKET ACTION:

	Lockheed	Market Average	Lockheed's moves in relation to avge.
'37 high to '38 low........	65% decline	64% decline	1% wider
'38 low to '38 high........	573% advance	76% advance	654% wider
'38 high to '39 low........	52% decline	34% decline	53% wider
'39 low to '39 high........	101% advance	44% advance	130% wider

Average volatility on four moves 209% greater than M. W. S. index of 316 common stocks.

COMMENT: Recent price—32. The shares of this company are considerably more volatile than those of the aviation group either as a whole or individually.

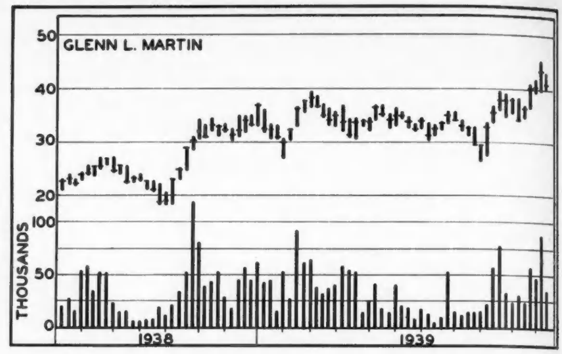
Long Term Record

	Net Sales (millions)	Net Income (millions)	Net Per Share	Unfilled Orders as of Dec. 31	Price Range
1933..........	$.3	$.2	$.11	$.2	1.62½-1.37½
1934..........	.5	d.1	d.49	1.0	3.12½- .90
1935..........	2.0	.2	.49	Not reported	8.12½-1.10
1936..........	2.0	.1	.15	2.2	14⅞- 6½
1937..........	5.2	.1	.21	5.8	16¼- 4
1938..........	10.2	.4	.67	33.3	37⅞- 5⅝
6 mos. ending June 30, 1939.	12.5	.5	.66	....	36¾- 22¾

d—Deficit.

Thumbnail Stock Appraisal

GLENN L. MARTIN CO.



BUSINESS: This company has always done a greater percentage of military business than commercial, and with the exception of the year 1935, when sales consisted mostly of flying boats, its machines have been sold largely either to U. S. Government or to foreign purchasers. Principal model is a long cruising range land-type twin-engined bomber, which is highly regarded in army circles. On December 24, 1938, it was announced that patents had been obtained for a new type of airplane fuel container. Greater proportion of business in recent years has come from Far East and Europe.

FINANCIAL POSITION: In May, 1938, entire issue of 6 per cent convertible notes were called for payment at 100. Present capitalization consists of 1,092,308 shares of ($1 par) common stock. As of September 30, 1939, inventories were substantially higher at $17,606,032, a gain of $14,266,427 over a year ago. On the other hand accounts receivable and cash were somewhat lower, while notes payable totaled $5,000,000, an increase of that amount within a year. Current assets totaled $20,248,494 and current liabilities were $12,884,863, thus leaving a working capital ratio of 1.5 to 1.

OUTLOOK: On September 22, 1939, received order of $16,125,580 for two-engined bombers from the U. S. Government. Reported now to be in full production, company has advantage of having foreseen present expansion of demand and increased plant facilities about a year ago. Unfilled orders recently estimated at $63,000,000 with indicated deliveries during the first 25 days of October around $3,500,000. Orders backlog on October 1st was $66,439,000.

MARKET ACTION:

	G. L. Martin	Market Average	G. L. Martin's moves in relation to averages
'37 high to '38 low........	58% decline	64% decline	9% narrower
'38 low to '38 high........	165% advance	76% advance	117% wider
'38 high to '39 low........	29% decline	34% decline	15% narrower
'39 low to '39 high........	71% advance	44% advance	61% wider

Average volatility on four moves 38% greater than M. W. S. index of 316 stocks.

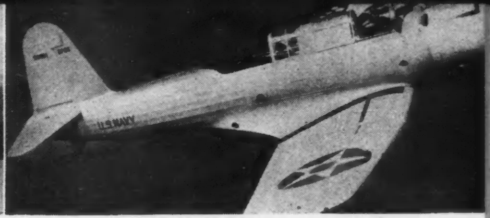
COMMENT: Recent price—41. Stock tends to move somewhat independently of aircraft group as a whole. Volatility is about average. Market for stock reasonably close.

Long Term Record

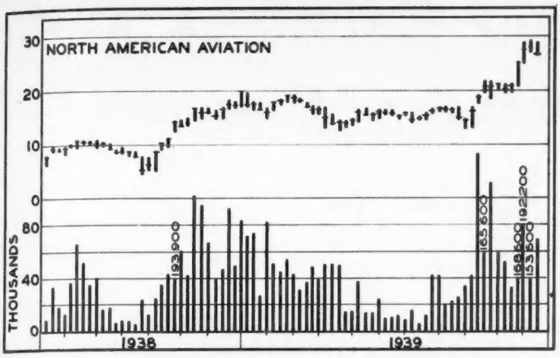
	Gross Sales (millions)	Net Income (millions)	Net Per Share	Unfilled Orders Dec. 31	Price Range
1933..........	$.4	d$.1	d$.27	....	....
1934..........	3.0	d.3	d.77	.... ..	....
1935..........	1.7	d.8	d2.24	....	....
1936..........	6.2	.7	.89	....	....
1937..........	7.8	1.1	1.29	13.8	29¼-10
1938..........	12.4	2.3	2.15	13.9	37⅜-14⅛
3 mos. ending Mar. 31, 1939..	3.5	.6	.63	....	39⅝-27⅛
June 30, 1939.	1.7	.3	.26	....	37⅛-30⅛
Sept. 30, 1939.	3.2	.5	.50	....	39¾-26⅛

d—Deficit.

Thumbnail Stock Appraisal



NORTH AMERICAN AVIATION, INC.



BUSINESS: Since 1938 activities have been confined to manufacture of military aircraft. Supplies large number of U. S. observation, combat and training planes. Represents the nearest approach in the airplane industry to mass production methods along lines similar to those pursued in the automotive industry. Does a substantial export business, which accounted for approximately 50 per cent of shipments in 1938. When first incorporated in 1928 activities were confined to investing in aircraft units. Among those companies acquired were Sperry Gyroscope and Eastern Air Transport, which were later distributed in the form of dividends to shareholders.

FINANCIAL POSITION: Capitalization consists solely of 3,435,033 shares of ($1 par) common stock of which 29.1 per cent is owned by General Motors. Profit margins have been on the whole satisfactory, and financial position is sound. Cash and marketable securities, as of December 31, 1938, gained $2,802,207 over the previous year and amounted to $3,558,070. Notes payable to the extent of $750,000 were retired, while other assets were marked down on the books. Current assets amounted to $8,568,437, while current liabilities were $2,974,088 thereby leaving a working capital ratio of 2.8 to 1.

OUTLOOK: Plans are at present underway looking toward the expansion of plant facilities by 50 per cent to a total of approximately 700,000 square feet. As of September 30, 1939, unfilled orders were $27,048,762 against $14,805,173 a year previously.

MARKET ACTION:	North American	Market Average	North American's moves in relation to average
'37 high to '38 low........	64% decline	64% decline	Identical
'38 low to '38 high........	240% advance	76% advance	216% wider
'38 high to '39 low........	37% decline	34% decline	9% wider
'39 low to '39 high........	130% advance	44% advance	129% wider

Average volatility on four moves 89% greater than M. W. S. index of 316 common stocks.

COMMENT: Recent price—27. Well sponsored company as a result of close association with General Motors. Somewhat greater than average volatility, and good market is maintained.

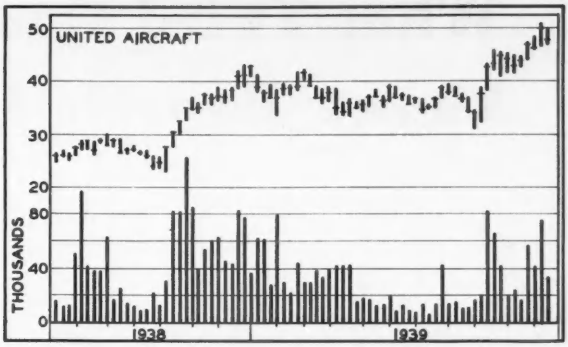
Long Term Record

	Trans. and Sales (millions)	Net Income (millions)	Net Per Share	Unfilled Orders as of Dec. 31 (millions)	Price Range
1931.........	....	$.3	$.15	....	11 - 2⅜
1932.........	....	d.2	d.12	....	6⅜- 1¼
1933.........	$3.7	d1.1	d.33	....	9 - 4
1934.........	1.9	d1.0	d.31	....	8¾- 2⅝
1935.........	3.6	d.01	d.005	$1.3	7⅜- 2
1936.........	5.2	.004	.001	5.2	14¼- 6⅝
1937.........	8.2	.5	.14	9.3	17⅜- 3
1938.........	(1)10.0	1.9	.55	10.9	20 - 5⅞
3 mos. ending Mar. 31, 1939..	....	1.3	.39	....	19¾-13⅛
June 30, 1939.	12.9	1.4	.42	....	16¾-12⅝
Sept. 30, 1939.	8.0	2.2	.66	....	21⅞-13

(1)—Net sales only. d—Deficit.

Thumbnail Stock Appraisal

UNITED AIRCRAFT CORPORATION



BUSINESS: Present organization is an outgrowth of United Aircraft & Transport Corp. dissolved in 1934, and nucleus of company is now centered around Pratt & Whitney Aircraft Division, which manufactures the highly regarded "Wasp" and "Hornet" aircraft engines. Sales of this unit account for about two-thirds of aggregate dollar volume. Chance Vought Division specializes in production of military aircraft, while the Sikorsky Aircraft Division is a leading maker of multi-motored amphibians and flying boats used throughout world. Fourth division is Hamilton Standard Propeller.

FINANCIAL POSITION: Sole capitalization is 2,649,437 shares of ($5 par) capital stock. Financial position appears strong with $15,800,000 in cash and securities, as of June 30, 1939. Bank loans of only $100,000 were completely retired. Current assets amounted to $28,795,293 and current liabilities, $9,451,476. Thus the working capital ratio was 3 to 1.

OUTLOOK: On October 9, 1939, directors announced that about $1,000,000 would be expended on additional plant facilities. On July 12, 1939, announcement was made of a new 18-cylinder air-cooled radial engine of extremely high horsepower for fighting planes. Unfilled orders recently estimated at $48,000,000 against about $17,500,000 a year ago.

MARKET ACTION:	United Aircraft	Market Average	United Aircraft's moves in relation to average
'37 high to '38 low........	45% decline	64% decline	30% narrower
'38 low to '38 high........	122% advance	76% advance	61% wider
'38 high to '39 low........	28% decline	34% decline	18% narrower
'39 low to '39 high........	65% advance	44% advance	48% wider

Average volatility on four moves 15% greater than M W. S. index of 316 common stocks.

COMMENT: Recent price—47. Shares are less volatile than group as a whole, and might be classed as representing the investment section of the aviation industry, more conservative than most of these stocks due to greater diversification.

Long Term Record

	Sales, etc. (millions)	Net Income (millions)	Net Per Share	Unfilled Orders as of Dec. 31	Price Range
1934 (4 mos.)..	$3.8	....	d$.01	$7.5	15¼- 8⅝
1935.........	11.2	$0.4	.21	15.8	30⅜- 9⅞
1936.........	22.1	1.9	.76	21.4	32⅜-20⅝
1937.........	28.7	3.9	1.52	23.8	35⅛-10¾
1938.........	35.7	5.4	2.05	17.4	43¼-19½
Three mos. to Mar. 31, 1938..	9.2	1.1	.42	....	27⅜-19½
June 30, 1938.	9.6	1.3	.53	....	29⅛-21¼
Sept. 30, 1938.	8.1	1.1	.45	....	30¼-23⅛
Dec. 31, 1938.	10.0	1.9	.70	....	43¼-26¾
Mar. 31, 1939..	9.8	1.5	.56	....	42⅜-33⅝
June 30, 1939.	11.4	2.2	.82	....	39⅝-33
Sept. 30, 1939.	13.0	2.1	.80	....	46 -31

d—Deficit.

Thumbnail Stock Appraisal

Will Profits Continue to Lag Behind Business?

What Third Quarter Earnings Tell About Fourth Quarter Prospects

BY HENRY D. STEINMETZ

THE stock market has been out of step with business activity and corporate profits so frequently over the past year or so that, to many minds, the latter factors have just about lost their traditional status as major determinants of the course of stock prices. Such, of course, is by no means the case. Earnings or, rather, *prospective* earnings remain, as they always will, the prime gauge of value. If events in Europe have usurped the market's attention of late, it is only because of the ultimate effects they are thought likely to have on business activity and profits here.

Not that near term price movements will be governed exclusively or even primarily by prospective fourth quarter operating results; the market is undoubtedly more concerned with the outlook for early 1940. But some sort of definitive appraisal of nearby probabilities is a prerequisite of intelligent speculation as to longer range potentialities. This quarter's earnings will constitute a necessary basis of comparison and estimate with respect to the early months of next year. Similarly, the September period of this year provides a basis of estimate for the current period.

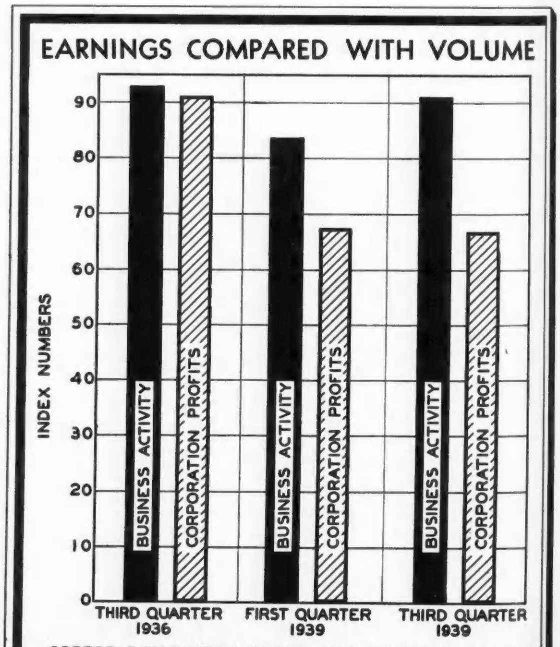
In no two periods, however, do the principal components of the profit equation carry quite the same values. Business activity is in a continuous state of flux and its importance as an earnings determinant varies widely from one period to another.

Last quarter, for example, was one of profitless prosperity as compared with some other recent periods. For though business activity, as measured by this publication's seasonally adjusted per capita index, averaged 91 per cent of the 1923-25 mean, combined profits (seasonally adjusted) of 200 leading industrial corporations were less than 75 per cent of those of the same quarter of 1936 when activity was only two points higher, and were even a little under earnings of the first quarter of 1939 when the business index averaged 83.6.

Other instances where volume and net did not move together are not hard to find. Thus, while business rose from 93.6 in the first three months of 1937 to 98.6 in the second, profits (in terms of a seasonally adjusted index based on 1926 = 100) declined from 102.4 to 100. There was an even greater disparity between the first and second periods of 1938 when activity gained slightly from 69.4 to 69.6 and earnings dropped sharply from 38.8 to 20.4. And in the current year, though business remained almost unchanged from the first quarter to the second, profits fell 26 per cent.

Obviously, business activity is not in itself the touchstone of profits. Industrial cost-price relationships are equally important. In the present instance, however, it is encouraging to note that the latter, despite sharply higher raw material prices since the beginning of the war and the usual lag in finished goods, probably have not been sufficiently distorted to prevent the prospective increase in business activity from being translated into substantially higher profits.

The business index averaged 96.4 for October and further gains before the end of the year should carry the weekly figure close to the 1937 peak of 102. Thus, the average for the quarter is likely to be in the neighborhood



Actual and Estimated Earnings of Twelve Leading Issues

	Actual			Estimated	
	Full Year 1938	3rd Qtr. 1939	Nine Mos. 1939	4th Qtr. 1939	Full Year 1939
Allis Chalmers	$1.44	$0.53	$1.49	$0.51	$2.00
Amer. Tel. & Tel	8.16	2.39	6.67	2.58	9.25
du Pont de Nemours	3.74	1.88	5.08	2.67	7.75
General Electric	0.96	0.30	0.87	0.63	1.50
General Foods	2.50	0.84	2.28	0.62	2.90
General Motors	2.17	0.15	2.39	1.46	3.85
Int. Business Machine	10.63	2.57	7.70	3.80	11.50
Montgomery Ward	3.41a	1.40E	3.25E	1.75	5.00a
Standard Oil of Calif.	2.22	0.42	0.97	0.53	1.50
Union Carbide	2.77	0.92	2.11	2.04	4.15
U. S. Gypsum	3.50	2.08	4.46	1.29	5.75
U. S. Steel	d3.78	0.47	d0.75	3.00	2.25

a—Fiscal year ending January 31 of following calendar year. d—Deficit. E—Estimated.

of 99 or about on a par with the best three months of 1937. It is altogether unlikely, however, that earnings will reach their 1937 top of 104.2 though a very sharp advance from the 66.8 figure of last quarter is indicated. Assuming that the leverage factor will be pretty much offset by production snarls and bottlenecks during the first phases of the upsurge, and that inventory profits will be counterbalanced by narrower unit profit margins nearer the end of the quarter, the fourth quarter index of earnings will probably fall between 85 and 90.

Turning from industry at large to a consideration of some of its principal component groups, it is found that the most spectacular third quarter earnings gains from year earlier levels were scored by the auto parts makers, the rail equipments and the steels, all of which converted sizable deficits into substantial profits. Results of the steel companies, showing sharpest gains of all, were especially significant. For though steel prices were weak throughout the period (concessions from list were discontinued immediately with the outbreak of war but deliveries continued against low priced business placed earlier), combined net of 20 concerns accounting for 88 per cent of the industry's capacity amounted to $29,600,000 against a loss of $8,600,000 a year earlier. As compared with the June period of this year, earnings were up 146.4 per cent though the industry's operating rate, at 62.3, was only 22.6 per cent higher then the 50.8 rate of the preceding three months.

Pessimism in Steel Overdone

All of which indicates pretty definitely that the wailing and gnashing of teeth over the price situation last summer was much overdone. Big Steel, bellwether of the industry, provides an excellent case in point. For with third quarter shipments at only 54.6 per cent of capacity, the company was able to report a net of $10,420,445, equal after preferred dividends to 47 cents per common share or the best three months showing in two years. Per ton profit before interest charges was $5.16 as contrasted with an average of $1.50 for the first six months of the year. With fourth quarter operations likely to average at least 50 per cent higher than those of last period, it would not be surprising to see common share earnings in the current three months reach $3.

As was to be expected, the larger steel companies—U. S., Bethlehem and Republic—outstripped most of the others in rate of recovery. Elimination of these three from the list reveals that earnings of the remaining 17 rose only 73.4 per cent from June period levels, or less than half the percentage gain recorded by all 20 companies. The greater leverage of the larger concerns was partly responsible for their better than average showing but their extensive non-steel activities, especially shipbuilding in the case of Bethlehem, also counted importantly.

Elsewhere in the industrial scene substantial if less spectacular gains were also the rule though, as always, there were some exceptions. The first 9 oil companies to report had an aggregate net 10 per cent less than a year ago. However, the industry's profit lag as compared with last year was reduced and, given a maintained price structure, several companies should finish the year with earnings higher than in 1938.

The tobacco companies as a group also earned less last quarter than in the like 1938 period while food, metal mining, utility and drug concerns reported profit increases well below average. Coal mining companies were still in the red though the aggregate deficit of 4 leading units was less than half that of a year ago. With the probable exception of the metal and coal mining groups, the above mentioned industries are again likely to appear among the tail-enders when earnings reports for the current quarter come to hand.

But that these few mediocre cases do not detract seriously from a generally favorable picture is indicated by the fact that combined third quarter net of 220 companies comprising a typical cross-section of industry and transportation rose 55 per cent over a year ago. The rate of gain, of course, was better than that recorded earlier in the year since nine months profits of the group were up only 49 per cent.

Aside from the steels, rail equipments and auto accessories, widest percentage gains last quarter were scored by the motors, heavy machinery makers, aircraft builders and electrical equipments, all of which succeeded in more than doubling year earlier earnings. Better than average increases were also enjoyed by the railroads, building supply companies and chemicals. Several of the latter, incidentally, are currently experiencing the best volume of business in their histories and it is fully expected that the current quarter will prove the best earningswise that the industry has ever seen. Only other industries at all likely to duplicate the feat are the aircraft manufacturers and machine tool builders.

With Detroit sources predicting a fourth quarter output of some 1,250,000 cars and trucks and with factory sales likely closely to approximate production figures, a thoroughly satisfactory final (*Please turn to page* 194)

The Investment Clinic

Stocks in Line for Increased Dividends or Year-End Extras

Conducted by J. S. WILLIAMS

STOCKHOLDERS this year are promised a bountiful Christmas. Between now and the year-end it is a virtual certainty that many companies will declare extra dividends; others will up their basic dividend rates; and another sizable group of companies favored by substantial earnings gains in recent months are rapidly approaching the point where it should be possible for them to reinstate dividends which they were compelled to omit some months ago.

During the month of October, 819 companies paid aggregate dividends totaling $210,885,000, an increase of 81 companies and some $20,000,000 over the month of October, 1938. During October this year 27 companies resumed dividends, 55 companies paid extra dividends and 27 companies increased their rate of dividends, according to a compilation made by the *New York Times.* This trend promises to be accelerated through the months of November, December and January. The chances appear favorable that year-end dividends this year may be on a larger scale than at any time since 1936 when dividends were exceptionally liberal in order to avoid the penalties imposed by the undistributed profits tax then in effect.

What Larger Dividends Mean

To the stockholder a dividend check not only represents his share of a company's profits and the return on his investment but the relative size of his dividend check may be accepted as constructive evidence of his company's ability to earn money, its current financial standing and near term prospects. A larger or extra dividend is not a sign of better earnings alone, for it is certain that a well managed company finding itself in a restricted working capital position or confronted with dubious or uncertain prospects for the months directly ahead would prefer to conserve its resources rather than give unfounded encouragement to its shareholders through the medium of its dividend policy.

The past year has witnessed steady improvement in the equity earnings of many companies—gradual in the first six months and exceptionally marked in the third and fourth quarters. In fact so pronounced have been the gains in recent months that in their wake there has arisen an attitude of skepticism and doubt on the part of many business men as to the vitality and duration of these gains. Born in an atmosphere of war, with its vast and uncertain implications, such an attitude is both understandable and entitled to stockholders' support. If when a stockholder examines his company's earnings this year and is disappointed in his proportionate share in the form of dividends, the probabilities are that he will be safe in assuming that directors were attempting to make a reasonable and conservative compromise with both the known and unknown factors in their company's business.

Even in the case of those companies which appear certain to be favored by sustained good business well into 1940, stockholders may have cause to wonder at what appears to be an ultra-conservative dividend policy. To handle this increased volume of business will mean that many companies will be forced to draw heavily upon their cash resources in order to expand inventories, add to plant and equipment and extend credit to their customers. All of these considerations will carry considerable weight in formulating dividend policies.

Working Capital Requirements Larger

The foregoing situation is typified in the case of the aircraft companies. With their order books bulging and plants humming, even prior to the repeal of the arms embargo, aircraft manufacturers comprise the one industry which at this time appears to be certain to receive large war orders from abroad, to say nothing of further sizable orders from our own Government and other neutral countries. Recent earnings reports of several leading aircraft companies have disclosed some spectacular gains in current earnings which, however, will be dwarfed when the large volume of unfilled orders now on their books are translated into profits. At the same time it is this large volume of unfilled orders which is making it necessary for aircraft companies to act conservatively in the matter of dividends. Working capital needs are large, increased plant capacity must be provided for and new plants must be equipped with machines and tools.

Led by such companies as Sears Roebuck, General Motors, Coca-Cola and Safeway Stores, there has already been a goodly number of extra dividend announcements. Others are sure to follow in rapid order and some of the companies listed in the accompanying tabulation may have acted on dividends before this is read.

Conspicuous among the industrial groups well represented by candidates for extra or increased dividends are the consumer goods companies—retail organizations, food processors, tobacco companies, etc. Having the benefit

of a greater relative degree of stability of earnings, these companies have the advantage of being able to pursue a dividend policy more closely conforming to earnings. In fact in not a few instances, the variation in working capital needs for consumer goods companies between good and *very* good business is so slight as to permit practically all earnings in any one year to be distributed to stockholders. Among retail organizations there are many which end their fiscal year next January 31 in order to avoid closing their books at their heaviest season. Such companies may postpone any action with respect to year-end dividends until early 1940. In other instances, directors may prefer to await the full year's results and measure the effect of year-end adjustments before taking any action with respect to dividends.

Attesting to the broadening character of the current business recovery is a fairly impressive group of companies identified with the more volatile capital goods industries, which have already taken favorable dividend action. Among these are included such companies as Bethlehem Steel, Fairbanks Morse, Harbison Walker Refractories, New York Air Brake and others.

One industrial group which promises to be well represented among the companies taking favorable dividend action in the near future is the automobile equipment manufacturers. It will be recalled that in 1938 the majority of these companies experienced a severe slump in earnings and not a few showed losses. This year, however, with the benefit of sustained automobile production and sales, earnings have staged a strong comeback. In fact earnings gains have been proportionately greater than the increase in sales. Two factors have been responsible for this showing. Most of the leading makers of automobile supplies and equipment, with the exception of the tire companies, are favored by a simple capitalization, with a single and comparatively small issue of stock constituting the entire equity. Under such a set-up rising volume can usually be counted on to produce sizable per-share earnings. Another factor contributing to the current showing of this group is the increas-

(*Please turn to page* 190)

Leading Candidates for Favorable Dividend Action in Near Future

Company	Earned Per Share 1938	Dividends Paid 1938	Earned Per Share 1st 9 mos. 1939	Paid to Date 1939	Recent Price
Air Reduction	$1.47	$1.50	$1.37	$1.50	$57
American Cyanamid	0.91	0.45	1.25	0.60	32
American Snuff	3.32	3.25	NF	3.25	67
Collins & Aikman	1.71(L)	1.25	0.04(f)	1.00	34
Ingersoll-Rand	5.20	5.50	NF	5.00	116
Industrial Rayon	0.24	0.25	0.75	0.25	25
Cluett Peabody	1.29	0.75	1.69(e)	0.85	35
Interchemical	0.32	None	2.52	0.40	41
International Business Machines	10.63	6.00(a)	7.70	4.50	174
Jewel Tea	5.09	5.00	2.57(g)	4.00	79
Link Belt	1.33	1.25	1.17	1.00	42
Westvaco Chlorine	1.52	1.00	1.91	1.85	31
Square D	1.17	0.75	0.90(e)	0.75	28
McGraw Electric	1.89	1.00	2.72(h)	1.00	22
National Steel	3.03	1.60	3.31	1.20	74
Hazel Atlas Glass	4.97	5.00	5.08	6.25	105
Bower Roller Bearing	1.50	1.00	2.09	2.00	33
Household Finance	7.34	5.00	5.26	4.00	62
Ex-Cell-O Corp	1.11	0.60	1.34	0.70	24
Flintkote	1.21	0.60	1.70	None	20
Glenn L. Martin	2.15	None	1.39	None	41
Bendix	0.07	None	1.47	0.50	32
Clark Equipment	0.64	0.25	2.55	1.25	32
Cleveland Graphite Bronze	0.96	1.00	3.44	0.75	35
Thompson Products	1.33	0.25	3.02	0.75	31
Johns-Manville	1.09	0.50	2.69	0.75	75
Westinghouse Electric	3.38	2.50	3.40	2.50	115
Owens-Illinois Glass	2.02	1.50	2.81(h)	2.00	63
Abbott Laboratories	2.31	1.70	2.51	1.50(a)	65
Union Carbide & Carbon	2.77	2.40	2.11	1.90	86
American Brake Shoe	1.03	1.00	1.45	0.75	46
Chrysler	4.32	2.00	5.82(e)	4.00	87
General Refractories	0.30	None	0.90	0.25	34
W. B. Jarvis	2.74(m)	1.50	1.66	1.25(b)	17
J. C. Penney	5.40	4.25	2.33(e)	2.25	89
American Chain & Cable	0.56	0.70	0.53(e)	0.55	22
Spicer Manufacturing	0.29	0.50	2.42(e)	2.00	30
Timken Detroit Axle	0.70	0.50	0.99(e)	0.25	22
Columbian Carbon	5.13	4.00	3.04(e)	3.00	90
United Carbon	3.78	3.25	2.11(e)	2.25	65
N. Y. Air Brake	d0.66	0.25	1.44	0.50	53
Kimberly-Clark	2.66	1.00	2.61	1.50	34
Geo. W. Helme	5.84	7.00	NF	7.00	110
Du Pont	3.74	3.25	5.08	3.75	177
Hercules Powder	1.95	1.50	2.47	1.20	83
Norfolk & Western	13.58	10.00	10.00	10.00	205
Phillip Morris	7.50(n)	6.75(c)	4.40(k)	5.00	86
Chesapeake & Ohio	2.62	2.00	1.98	2.00	41
El Paso Natural Gas	3.30	2.00	3.93(h)	1.50	41
Doehler Die	0.19	0.20	1.42	None	18
Eaton Mfg.	0.03	0.25	2.33	2.00	28
Hershey Chocolate	4.17	3.00	5.57	3.00	61
Bayuk Cigars	3.01	1.00	3.12	0.56¼	25
General Telephone	1.64	1.20	1.55	0.75	19
J. J. Newberry	4.05	2.10	NF	1.50	41
Libbey-Owens-Ford	1.57	1.25	1.55	1.50	51

(a)—Plus 5% in stock. (b)—Plus 100% in stock. (c)—Plus ½ sh. stock. (d)—Deficit. (e) 6 mos. to June 30. (f) 6 mos. to Aug. 31. (g) 7 mos. to July 31. (h)—12 mos. to Sept. 30. (k)—6 mos. to Sept. 30. (L)—Yr. ended Feb. 28. (m)—On prior capitalization. (n)—Yr. ended Mar. 31. NF—Not available.

Cross Currents Dominate Office Equipment Industry

Earnings of Most Companies Under a Year Ago

BY ROBERT LANE

Declaration of war on September 1st found the office equipment shares sliding lower while the stock market as a whole, led by the "war babies," shot upwards. Since that time a certain degree of reappraisal of the immediate outlook has bettered the perspectives for these companies with a resultant improvement in prices for their shares. Even under normal conditions the office equipment industry is usually among the last to follow an upward trend, which is not particularly surprising since its products come within the classification of capital goods. In view of the cross currents caused by the outbreak in Europe it is not too much to expect that somewhat hasty and incorrect decisions as to the prospects of these compaines should have been made.

Since the start of war in Europe the outlook for office equipment manufacturers has become increasingly more and more of a puzzle. On the one hand the export market is seemingly taking a turn for the better, but then again competition in the domestic market is increasing and there is always the question of just where the saturation point will be reached. Likewise the trend of profit margins for different products of the industry vary considerably, and just which companies are in a position to benefit, and why, is an important problem for holders of these securities.

Several major elements dominate this industry and each of these react somewhat differently on the particular companies engaged in it. Most important is the fact that the market for original equipment, with some exceptions, is gradually contracting in this country, so that it has become necessary to cultivate foreign outlets. These foreign exports account for roughly 25 to 30 per cent of total sales, and the conflagration abroad has consequently led to currency problems as well as to the narrowing or complete loss of some of these markets, while other outlets have been broadened substantially. In addition there is the adverse trend of profit margins as a result of high wage and material costs. Each of these elements must of necessity be weighed individually, and then correlated with the industry as a whole, as well as with each company individually, before anything approaching a rational conclusion can be arrived at.

Office equipment has done for the recording and tabulating section of business what mass production has accomplished in the field of direct manufacture. Without an efficient and low cost method of recording it is extremely doubtful that large scale production would have been possible. In any event these two phases of modern industrial efficiency have reacted upon each other to their mutual advantage and are thus interdependent and interrelated. There is no question whatever that the introduction of office equipment has led to greater output per employee in office work, and the mechanical efficiency of the machine actually finds no counterpart in the individual no matter how capable he or she may be. This is generally recognized to such an extent that it is no longer disputed, and consequently the broad possibilities for the sale of original typewriters, and the usual office equipment, have by now necessarily become limited.

There is, of course, the added stimulus the industry received through introduction of the social security law and other similar legislation. This has brought substantial business to such companies as International Business Machine and Remington Rand, which manufacture the required type of recording and tabulating apparatus. The added overhead entailed by this legislation for industry in general has only had the effect of furthering the need for a reduction of costs, and the best method of doing this has been found to increase the productivity per employee by the introduction of time and labor saving machinery. Hence the new laws have worked to the benefit of virtually all companies engaged in the manufacture of cost saving machinery. While a large portion of this potentially new market has undoubtedly been successfully exploited since the lush years of 1933-1937, a certain indefinable margin of it still remains. This, and the fact that economic law under present conditions is working in favor of these companies, makes the outlook reasonably favorable for new devices and models capable of proving their economic value to the purchaser. It might be added that the industry has shown a considerable degree of ingenuity in the introduction of new models making for lower

operating costs in office work over a period of time.

During the first six months of this year earnings of most companies ran somewhat under those of the similar part of 1938, though notable exceptions included International Business Machine and Remington Rand. For the majority of companies, however, September was the first month in which sales showed an increase, while during October further improvement was reported. Part of this betterment has been due to improved domestic business activity, while a substantial part has been the result of large exports.

At the beginning of the conflict abroad the loss of foreign markets, especially those of England and France, had been expected to result in lower earnings for many companies which depend on exports for a large part of their total sales. In addition these units have been faced with the transfer of funds, particularly in sterling, at devaluated levels. Estimated foreign sales of International Business Machine run around 27 per cent of total output, on the average, while those of Burroughs Adding Machine are about 30 per cent; National Cash Register, 50 per cent; Remington Rand, 35 per cent; Royal Typewriter, 20 per cent; L. C. Smith & Corona, 25 per cent, and Underwood-Elliott-Fisher, 35 per cent. Hence the importance of export business is obvious, since these companies generally receive at least as satisfactory a price abroad as they do on domestic sales.

While many had at first believed that war would bring about the complete loss of the British market, orders from Great Britain are now growing, partly as a result of the change-over of English office equipment companies to the production of munitions. The consequence of this has created the necessity of filling requirements in this country, especially since the war, has accelerated the need for additional equipment. This demand has reached the point where Royal Typewriter has already decided on the construction of a factory in Canada to meet the requirements of Britain and Europe as a whole. Just how such a procedure will ultimately work out is as yet difficult to say, since National Cash Register is reported as having exchange difficulties through shipment to England of its cash registers and accounting machines via its Canadian plant. Another disadvantage for National, however, is that while indications point to an increase in the export of typewriters, a decline is under way in sales abroad of cash registers.

More important is the fact that during the past five years Germany has become an ever greater competitor of the United States in the foreign field, and last year accounted for approximately 35 per cent of total world production of typewriters. It would be too much to expect American companies to garner all the trade that Germany sold prior to the war, and which she is in no position to service today. In many instances, according to reliable reports, Germany dumped office equipment, particularly typewriters, on the doorsteps of countries such as Mexico, while only a limited use at best existed for them. This in turn had the effect of demoralizing the entire market, and of forcing local merchants to sell at a large loss. Since the major part of this business was tied into the barter arrangements conducted by the Third Reich it is not surprising that United States manufacturers were unable under these circumstances to compete. It is therefore unlikely that they will be able to duplicate Germany's volume in South America, but the elimination of the Nazis from trade in these areas is certain to lead to a legitimate and healthy business increase in these territories both for the United States manufacturers and the local South and Central American merchants.

From 1926 to 1930 an average of $45,000,000 of office

Relation of Exports to Production of Business Machines

(Unit—Thousands of Dollars)

Year	Total Production	Exports	Ratio of Exports to Production
1937	$183,077	$37,523	20.4%
1935	128,597	27,039	21.0
1933	67,295	15,769	23.4
1931	78,531	24,982	31.8
1929	171,859	53,754	31.2
1927	162,164	44,094	27.1

Courtesy Underwood-Elliott-Fisher

Courtesy International Business Machine

This machine almost thinks for itself—International's bookkeeping and accounting machine.

equipment was exported, and it was during this period that exports in relation to total production reached their highest level. As a matter of fact the percentage of exports doubled between 1923 and 1929, or from 15.1 per cent to 31.2 per cent of domestic production, respectively. As seen from the accompanying table, exports dropped to 23.4 per cent by 1933 and have continued lower since then on a percentage basis. It should be noted, however, that the dollar volume of exports from 1932 to 1937 increased 159 per cent, though from 1937 to 1938 a decline of 23 per cent occurred. Nevertheless the recent high point in exports of $37,523,000 in 1937 was still substantially lower than the average during the previous decade.

Undoubtedly a major cause for the drop in volume of exports since 1930 has been the autarchic economy fostered particularly by Germany and Italy. Having as its aim the division of the world into relatively isolated trade areas, success of the fascist program can only result in the eventual elimination of virtually all exports of the American companies with an accompanying contraction in their output. Final decision on this possibility must, of course, be held in abeyance pending the outcome of the European war, which is destined to decide the type of economy this world is to have for many years to come. To an extent this trend toward self-sufficiency has been circumvented by licensing agreements permitting the construction of office appliances in foreign countries as well as by the establishment of plants in foreign centers by equipment companies. International Business Machine has been a leading factor in undertaking participations in foreign nations and now has contacts in 78 of them. Remington Rand typewriters are made in Europe under license, while the connections of National Cash Register have already been touched upon.

An additional irritant has been the indictment recently filed against four major companies by the United States Government for alleged violation of the Sherman Anti-Trust Laws. The government contends that Underwood, Remington, Royal and L. C. Smith & Corona typewriter companies have been guilty of fixing uniform prices and trade-in allowances and discounts. The indictment also claims that the companies "arbitrarily and simultaneously" attempted to stifle competition by means of increasing prices and agreeing to identical bids to prospective customers. Pleas of not guilty have been returned to the court and further hearings are now pending.

During the past ten years several factors have tended to reduce profit margins for the typewriter companies. The most important in this respect has been wages which in 1937 absorbed 57.7 per cent of the value of total production against 45.9 per cent in 1933 and 36.1 per cent in 1929. Cost of materials have likewise increased and accounted for 29.8 per cent of total value in 1937 contrasted with 19.8 per cent in 1933 and 11.7 per cent in 1929. Thus in the face of larger operating costs factory profit margins were consequently reduced to 12.5 per cent of total value in 1937, compared with 34.3 per cent in 1933 and 52.2 per cent in 1929.

Other divisions of the industry, however, have fared better so that wages paid by office machinery manufacturers, excluding typewriter companies, accounted for 27.1 per cent of the value of output in 1937 compared with 29.4 per cent in 1933 and 27.0 per cent in 1929. Material costs gained about 57 per cent from 1929 to 1933, though practically no change has been shown since that time. In contrast to the experience of the typewriter division factory profit margins have increased to 57.5 per cent of the total value of products in 1937 as against 55.2 per cent in 1933 and 63.2 per cent in 1929.

The outstanding issue in the office equipment industry is unquestionably International Business Machine. With the exception of 1932 and 1933 each year since 1925 has witnessed increased profits. In addition an unbroken dividend record has been maintained since 1916 with $6 cash distributions annually since 1929 as well as frequent stock dividends and cash extras in recent years. This dividend policy has been carried through despite International's need for conserving its working capital in order to finance the construction of heavy tabulating machines, which in turn are rented out. The major part of gross volume is derived from receipts due to the leasing of electrically-operated machines. Sales of punched cards used with this apparatus contribute approximately one-third of total gross revenue. Because of growing sales it was found necessary in 1936 and 1937 to sell $15,000,000 debenture 3's due (*Please turn to page 193*)

Motor Sales Up Sharply

Who Is Getting the Business?

BY GEORGE W. MATHIS

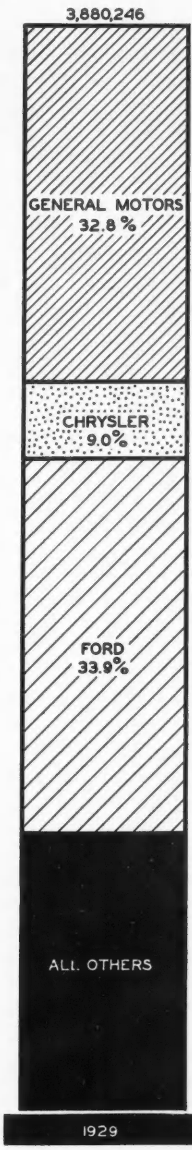
THE struggle for supremacy in the automobile industry has been characterized by a narrowing of the production field that has accelerated over the last decade. Even in 1929 the top three companies, General Motors, Chrysler, and Ford, accounted for about 75 per cent of total output with the rest spread over nine independent concerns. And last year these same three leaders split over 91 per cent of the business while eight others fought for the rest.

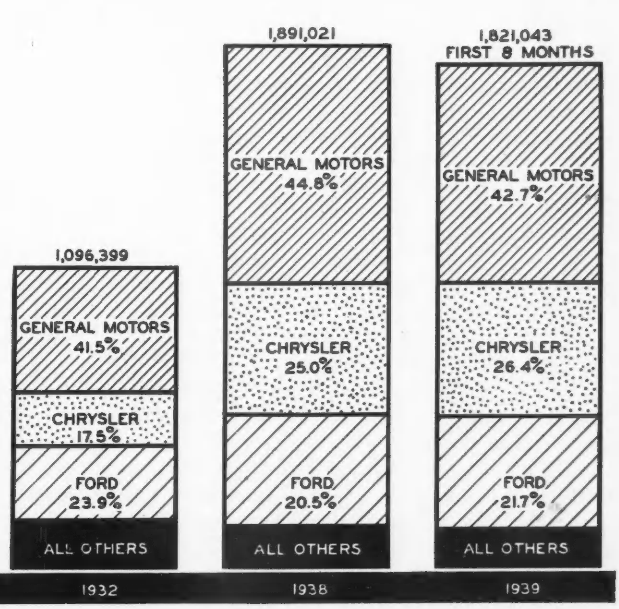
The story does not stop here, though, for the relative positions of the top trio are dynamic as well. Chrysler has forged ahead from a very poor third to a good second, more than doubling its percentage of the total production en route. And General Motors has consolidated its position still further, while Ford by contrast has lost considerable ground. At the present time they account for 25, 43 and 22 per cent of total production respectively.

As always the public has shown small regard for precedent where money and values are concerned. Ford was the leader in the low price field for many years, and is still a factor to be reckoned with. But the reduction in the price level of the finer cars during the depression brought pressure to bear on the medium price range of cars with the result that they too were forced to make cuts. Having a wider margin of profit than Ford they could bring prices down farther. The public soon found that for a small additional sum they could buy a much bigger car, with the result that Ford sales dropped. By the same virtue, Plymouth, Pontiac and Dodge gained. Plymouth in particular scored a hit in 1929 and from then on doubled, tripled and quadrupled its sales in spite of the depression. Production of this Chrysler ace was 84,969 units in 1929, 249,667 units in 1933 and 462,268 units in 1937.

The leading passenger cars in the General Motors group are Chevrolet and Buick, the former selling in recent years more cars than any other make in the world, and the latter a public favorite in the upper medium and higher price brackets. The introduction of the Mercury last year marked the entrance of Ford into the medium price field as well, and by all indications the venture has been a complete success. With production thus rounded out, it may even mark the reversal of the long term downward trend of the company.

In recent years the struggle among the independents has been for their very existence with a few companies registering at most partially successful years. Hard pressed by its isolation in the high price field, Packard finally brought out a medium priced car. Some degree of success was attained by these "120" models at first, but they have not held their own. Studebaker improved its position to a degree through its Champion line, and seems to be making consid- (*Please turn to page* **192**)





As the Trader Sees Today's Market

Foreign Selling

BY FREDERICK K. DODGE

PRESUMABLY the Allies learned their lesson during the last war when a comparatively small amount of uncontrolled panic selling in 1914 and the threat of much more to come touched off a slaughter of American security prices that forced the stock exchanges to close. That the market once again has to absorb foreign selling is evident, but it is accomplished without a vestige of pressure. Actually, quiet though trading has been over the last few weeks, liquidation from abroad is estimated to average around $1,000,000 per day. Naturally this has some influence on the market's action.

The major question, as traders and investors alike see it, is however, one of potentialities. That is, what is to be expected if the situation in Europe suddenly becomes dynamic and throws a heavy burden on Allied resources. Hasty withdrawal of even a portion of their vast holdings would set off a cumulative selling wave that would react unfavorably on business and industrial activity in this country in addition to undermining security values. The market discounts not only actual commerce, but public confidence as well. The present level of stock prices is in a way proof of that, for though F. R. B. index of industrial activity is at 120 up 28 points from a low of 92, stock averages are about 38 points below where they were the last time the index registered this rate. And with these factors in mind there has been close co-operation between Washington and the Allies as to the "modus operandi" of orderly liquidation. The program calls for market operations so expert that they will on one hand permit large sale of securities over a period of years if necessary, and on the other not disrupt our economy over here.

Foreign entrance into our security markets on a grand scale began in 1935 and carried through in a practically unbroken stream until the spring of 1937. Purchases are estimated to have totaled over 9 per cent of the stock exchange volume for these years, rising from a low of 3½ per cent in 1934 to a total of 13 per cent late in 1936. The importance of this heavy buying was further increased by two salient characteristics it had. Orders from abroad were practically all confined to the market leaders—those stocks whose action is often as much of an influence on the market trend as it is indicative of it. And the greater majority of these transactions were executed in the first hour of trading because the time differential makes it difficult to trade from abroad later on in our day. The course of the market for individual days was thus very often at least partially determined at the very outset by European action. Transactions in 1938 were characterized by violent but short changes in the flow of capital dependent on whether Hitler blew hot or cold, but the general trend was towards increasing holdings.

Has Foreign Selling Stopped the Market in Its Tracks?

Financial authorities of the Allies admit that they have begun to liquidate at least a portion of their large holdings in American securities. Though apparent pressure has been kept to a minimum through careful operations by expert traders, this factor cannot be ignored in any consideration of the forces influencing the market at the present time.

Of the 75 per cent of foreign operations in American securities that originated in Europe, Great Britain accounted for half, with the rest divided about equally among France, Switzerland and the Netherlands. Allied aggregate holdings here total the tidy sum of $3,000,000,000. A breakdown of this figure shows cash in banks of about $850,000,000. Of the rest 51.4 per cent or $1,105,000,000 is in common stocks, 11.9 per cent or $255,850,000 is in preferred stocks, 15.7 per cent or $337,550,000 is in bonds, and 21 per cent or $451,500,000 in direct industrial and commercial investments. In spite of the additions made over the last decade, Great Britain's holding of American obligations has reached only about half the $4,250 million figure it stood at just before the first World War, but the French have actually slightly increased their position. The most important change has been in the nature of the investments. Both countries now hold a far greater percentage of common stocks than they did 25 years ago. Among the other European countries with surplus capital, the Netherlands and Switzerland are outstanding. Both have almost tripled their holdings here since the last war, and now have $2,000,000,000 and $2,250,000,000 invested respectively. Some portion of this, however, undoubtedly represents Allied funds de-

posited with them for safe-keeping.

The extent to which these vast sums will be drawn upon for war purposes is dependent on many factors, but the machinery for making them available has been refined to the point of perfection. In England all holders of American securities have had to register them long ago. Additional export of capital is of course no longer permitted, but thus far sales are a matter of the owners' inclination subject to certain regulations. The seller must obtain permission to dispose of his security from the Bank of England, and the broker through whom the transaction is to be effected must likewise report before the transaction takes place. Shifting from one American security to another even though it involves no additional export of funds is not allowed since the British Government fears that eventually funds would find their way into short term obligations and would be hard to keep track of when these mature. As yet there has been neither actual official selling nor indication of any to come. None of the large investment trusts or insurance companies has been called upon to dispose of its holdings either. A new method for handling certificates of American companies has just been introduced with the object of expediting sales and doing away with the possibility of loss in transit. The leading New York banks with offices in London will accept the certificates after they have been sold, cancel them, and wire instruction to their main office over here to issue a new certificate to the representative of the purchaser.

Liquidation in Last War

During the last war it was not until the end of 1915 that anything was done officially by the British Government to regulate the sale of foreign securities held by her nationals. When it was finally instituted the American Dollar Securities Committee offered two alternatives to these holders. (1) The outright purchase of dollar obligations by the Committee in exchange for 5 per cent Exchequer bonds plus $2\frac{1}{2}$ per cent premium or, (2) the loan of such securities to the British Government at a rate of interest $\frac{1}{2}$ per cent higher than that obtainable on the securities themselves. The loan conditions also entailed the transfer of power of sale to the government in order that they might be acceptable as collateral. Late in August the scheme was extended for a period of five years and the list of stocks and bonds to which it was applicable was lengthened to include certain South American, Canadian, and Scandinavian obligations. The total amount of securities handled by the British Treasury under the plan was well over $3,000,000,000 of which a large part consisted of sterling obligations of American concerns that were repatriated by this country. The success of the Committee was such that the program of Britain to handle the same problem during the present war undoubtedly incorporates the majority of its features. But fortunately there has not been the deadly delay in putting it into effect.

Stocks Europeans Own

Among the favorites in the transatlantic group of securities are New York Central, Atchison, Chrysler, General Motors, Union Pacific, General Electric, International Nickel, and U. S. Steel. Interesting is the change in foreign ownership of the latter stock. During September the number of shares of Big Steel held abroad declined by 8,721. But the selling throughout the second quarter was proportionately even greater, registering a total drop in foreign interest of 33,000 shares. In view of the thirty odd points that were added to the stock shortly afterwards this move was unfortunate for Europe. Most of these issues are listed on the Amsterdam exchange as well as in London, and a certain amount of the liquidation is in all probability effected there. Since the declaration of war, however, what activity there has been here of a non-Allied, European nature has balanced out with purchases and sales practically even. Some of the smaller countries with good credit ratings have used this opportunity to purchase their dollar obligations at low levels. Orders have been placed to buy all bonds that come into the market below a certain price, which accounts for the apparent stability of these issues.

Though the figures are not disclosed by the Treasury Department until some months after they have been compiled, present indications are that the balances of foreign central reserve banks over here have actually declined since the outbreak of fighting. England and France are no exception to this fact which means in effect that purchases of goods in America have exceeded the liquidation of securities in value. It cannot, however, be assumed that this reflects war orders. Instead it is indicative merely of the completion of commercial contracts entered into before the declaration of war. But it does place a healthy limit on the amount of foreign selling thus far.

In addition to the benefit (*Please turn to page* 192)

Rails That Pay Off Through Thick and Thin

Triangle Photo

Four Major Systems Are Outstanding

BY RICHARD COLSTON

In the economic history of this nation no major industry has been more subjected to discrimination and rigid regulation than have the railroads during the past several decades. By the vote-seeking politician they have often been utilized as a "whipping boy" and a means for the propulsion of the crusader to office. Thus the railroads have been hauled over the coals time after time. For example, the farmer desired low rates for shipping his grain, the manufacturer and home owner wanted low priced coal, the South complained that the roads discriminated against them and in favor of New England industries, and legislators of both state and national capitols were besieged by all types of citizens' committees expressing special and usually conflicting claims.

It is not surprising, therefore, that the rails have had hard pulling and are now generally considered to be on the rocks. But actually these conditions, while contributing and vital factors, were not solely responsible for the problems now facing the carriers. The more immediate cause of rail difficulties has been a drastic shrinkage in the volume of traffic plus an increase in wages and taxes. This has occurred during a period when freight and passenger rates were generally reduced. It is in effect as though your corner grocery store had to increase wages of its employees while paying larger taxes. and simultaneously reduced prices as sales volume declined. Sooner or later the proportionately greater overhead would eat up the declining rate of profit and this pinch would ultimately force it into bankruptcy. There is no doubt that such a situation is sufficient to test the stoutest heart, and the results thus far are unquestionably a tribute to rail management and the principles of private property and private control. Needless to say the survivors of these conditions must be hardy indeed.

The drop in railway net operating income has been a result of many causes. In the first place the automobile has had considerable influence in reducing passenger traffic, and if it had not been for this element it is doubtful that many of the rails would find themselves in their present position. For example, while passenger automobile registrations in 1938 ran about 206 per cent ahead of 1920, revenue passenger-miles declined almost 54 per cent in the same period. In addition as a result of lower rates railway passenger revenues dropped 68 per cent. The net result has been devolpment of new streamlined special speed trains, Dieselized locomotives having increased speed and low operating costs, as well as many other conveniences such as air-conditioned cars, in an effort to regain lost traffic.

Total freight revenue from 1920 to 1938 declined 34 per cent. Among the more important reasons for this is the gain in truck, waterway and airplane competition, while petroleum pipelines have definitely reduced available tonnage for certain southwestern carriers. Thus along with increased crude and gasoline production for the nation as a whole actual shipments via rail declined

about 36 per cent, while pipelines gained correspondingly. On the other hand express and freight carried by airplane, in domestic commerce only, gained over 2,000 per cent from 1926 to 1938. Another important, though relatively small factor, is the decline in less-than-carload-lots from 4.2 per cent of total traffic in 1920 to 1.8 per cent in 1938. This may appear insignificant, but the important point is that lines receiving this business found this traffic among the most profitable.

These few figures are sufficient to give some appreciation of the traffic losses sustained by the railroads. The next important consideration is what has happened to operating costs. Since wages account for approximately 60 per cent of operating expenses and take roughly 45 per cent of total railway operating revenues it can be said that this is the most important single item in the expense column. Wage trends in the rail industry during the past two decades have indicated a tendency to advance far more rapidly during periods of improved industrial activity than they have shown an inclination to decline during periods that were unsatisfactory. Ever since 1922 when the U. S. Railroad Labor Board ordered a reduction in wages and was greeted with a strike, wage rates have been reduced only with great caution and long after operations indicated that this should be done. Thus about 43 cents of every dollar the railroads receive is paid employees, or over $5,000,000 a day.

Raw materials have not increased in cost on the whole, due to the downward trend in commodity prices generally. Coal is the most important single commodity used by the carriers, although purchases of fuel oil have increased substantially in recent years. On the other hand taxes per dollar of revenue have more than doubled since 1920, when they were 4.40 cents per $1.00 of revenue compared with 9.55 cents in 1938. This means an increase from $272,061,453 paid in taxes in 1920 to $340,779,786 in 1938, an increase of about 25 per cent, or almost $1,000,000 a day.

Any road that has faced the foregoing conditions over a period of many years and has come through them successfully may rightly be said to have passed the acid test. How much more impressive therefore is the performance of those few roads which have not only successfully taken care of their fixed charges, but have paid dividends on their common stock in virtually unbroken succession in good years and bad alike. It should be profitable, as well as interesting, to examine the factors enabling these few roads to attain this outstanding position.

Three of the four lines having a strong dividend record are Norfolk & Western, Chesapeake & Ohio and Pennsylvania. These have several characteristics in common. The most striking similarity is that bituminous coal is the most important commodity carried by each of them. Secondly, all of these roads run through industrialized areas and consequently have a heavy traffic density. Thirdly, manufactured products, though actually a small percentage of total traffic hauled in most instances, make a considerable contribution to revenues. The outstanding features of the fourth road having an unbroken dividend record, Union Pacific, lies in the fact that it is not only a transcontinental carrier with well diversified traffic, but it also has substantial investments in outside properties so that its income from these sources constitutes a large proportion of its total revenue. In this latter aspect it is somewhat similar to Pennsylvania and Chesapeake & Ohio.

Norfolk & Western

Dividend payments have been made consecutively on Norfolk & Western common stock since 1901. For the decade 1920-1929, inclusive, dividend disbursements averaged $8.80 per share, while in the following nine years, 1930-1938, they averaged $11.33 per share annually. Throughout these periods earnings ran well above dividends, with a healthy sum in each instance carried to surplus; and for the period 1930-1938 averaged $16.92 per share.

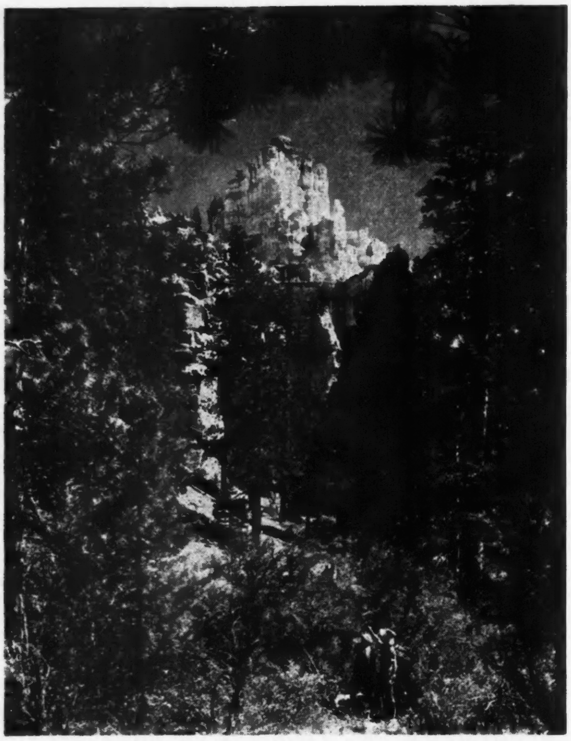
Serving as it does the bituminous coal fields of western Virginia, southern West Virginia and eastern Kentucky this road runs northward with diverging lines to Columbus and Cincinnati, Ohio. Other branches connect with the Pennsylvania at Hagerstown, Maryland. Bituminous coal accounts for 70 per cent of the total freight tonnage and about 74 per cent of revenues. Though manufactured goods, including less-than carlot business, makes up almost 10 per cent of freight traffic it adds approximately 20 per cent to revenue.

That the road is efficiently operated is indicated by the consistently low operating ratio. For the first nine months of 1939 this ratio stood at 58.2 per cent compared

Earnings and Dividend Record

	Norfolk & Western		Pennsylvania		Chesapeake & Ohio		Union Pacific	
Year	Earned per Com. Share	Dividend	*Earned per Com. Share	Dividend	Earned per Com. Share	Dividend	Earned per Com. Share	Dividend
1930	$21.97	$12.00	$5.28	$4.00	$4.46	(1)$0.62½	$15.63	$10.00
1931	14.39	12.00	1.48	3.25	3.49	2.50	9.93	10.00
1932	11.30	9.00	1.03	0.50	3.07	2.50	7.49	8.00
1933	15.20	10.00	1.46	0.50	3.69	2.57½	7.92	6.00
1934	13.77	10.00	1.43	1.00	3.67	2.80	6.63	6.00
1935	17.37	10.00	1.81	0.50	4.05	2.80	6.59	6.00
1936	22.74	13.00	2.94	2.00	5.72	3.80	8.20	6.00
1937	21.96	16.00	2.07	1.25	4.43	(2)3.80	6.15	6.00
1938	13.58	10.00	0.84	0.50	2.62	2.00	6.62	6.00

(1)—Initial dividend on $25 par stock following 4 for 1 split. (2)—Also extra of $2.00 a share in new 4% Series "A" preference stock was made Jan. 11.
*Adjusted to present $25 par srock.



Union Pacific widely publicizes the scenic beauty of the territory in which it operates. Above, a view of Bryce Point in Bryce Canyon National Park, Utah.

with 64.7 per cent for the same part of last year. This reduction is undoubtedly attributable to the 21.9 per cent gain in total operating revenue over a year ago, which would have the effect of carrying a large percentage of the gross to net railway operating income. Total maintenance charges, including equipment and ways and structures, for the nine months ran 30.8 per cent of gross revenue against 32.7 per cent during the same period last year. This is considered ample since the road is in excellent condition. With the most profitable months ahead Norfolk & Western should conclude the year in a highly satisfactory manner. For the nine months ended September 30th earnings were equivalent to $12.60 per share against $7.38 in the first nine months of last year, and it would not be surprising if in the final quarter of this year the regular $2.50 scheduled for payment should be increased by an extra disbursement.

Pennsylvania

Pennsylvania Railroad holds the distinction of having paid annual unbroken dividends since 1856, or for some 83 years. During the nine years from 1930-1938, inclusive, payments averaged $1.50 per share, declining, however, in four of these years to a mere 50 cents annual disbursement. From 1920-1929, inclusive, payments averaged $3.05 per share so that a steady downward trend in dividends is apparent. Except for the year 1931 dividends have been consistently covered by earnings, though in that year and in 1938 after dividend payments nothing was carried to surplus, but rather a deduction from this account was necessary. Share earnings for the years 1930-1938 averaged $2.03.

With 11,000 miles of track traversing the highly industrialized central eastern region bounded roughly by Washington, Baltimore, Philadelphia and New York, and also serving many cities in the mid-west, the traffic of this line is affected by cyclical trends in industry. About 40 per cent of its total tonnage consists of bituminous coal shipments, while anthracite accounts for approximately 20 per cent. Next in importance to mine products are miscellaneous and manufactured goods (including l.c.l.), which contribute somewhat less than 30 per cent to tonnage, though about 48 per cent to freight revenues. This contrasts with 35 per cent of freight revenues derived from mine products. Among the industries served by the road and on which it is largely dependent are steel, automobile and building construction, while passenger revenues are an important factor accounting for better than 15 per cent of total operating revenues.

During the first nine months of 1939 total operating revenues have run some 15.7 per cent ahead of the same period a year ago, which had little effect on the 72.1 per cent operating ratio against 72.4 per cent in this part of 1938. Within the same period the maintenance ratio rose from 27.4 per cent of gross revenue to 30.2 per cent, while earnings on the common gained from $0.16 to $1.00 per share in this period. From holdings in leased lines or affiliated companies Pennsylvania received better than $30,000,000 in dividends and interest in 1938. It owns directly, as well as through its wholly controlled Pennsylvania Co., almost 45 per cent of the common stock of Norfolk & Western. Other holdings include a 16 per cent interest in New York, New Haven & Hartford, 30 per cent in Lehigh Valley and 49 per cent in Wabash. The latter three roads are either in receivership or in financial difficulties pending readustment of their debt.

Chesapeake and Ohio

Operating from the coal fields of Virginia and West Virginia the lines of Chesapeake & Ohio extend north through Ohio to Columbus and Toledo and Cincinnati as well as to Chicago and Louisville, Kentucky. C. & O. is especially noteworthy since it originates larger coal shipments than any other road in the country. Recent statistics indicate that coal contributes 83 per cent of tonnage and 75 per cent of freight revenue. Density of traffic is particularly heavy with about 80 per cent of the coal movement destined for the Great Lakes industrial areas and the remaining 20 per cent delivered along the Atlantic seaboard. Traffic depends fundamentally upon industrial activity in these territories. Passenger traffic is of minor importance.

Dividends have been paid regularly since 1899, though at varying rates, with the exception of the years 1915 and 1921. Thus for 1920-1929, inclusive, the average dividend payment was $6.10 per share, despite the fact that no dividend was paid in 1921. For the years 1930-1938, inclusive, the average dividend was $10.40 per share, which is figured on the basis of the 4 for 1 split in the common in July, 1930. Since 1930 dividends have been earned regularly and earnings per share have averaged $3.91, or after giving effect to the split, to $15.64.

During the first nine months of the current year a 10 per cent gain in traffic was witnessed, which was largely responsible for the slight drop (*Please turn to page* 189)

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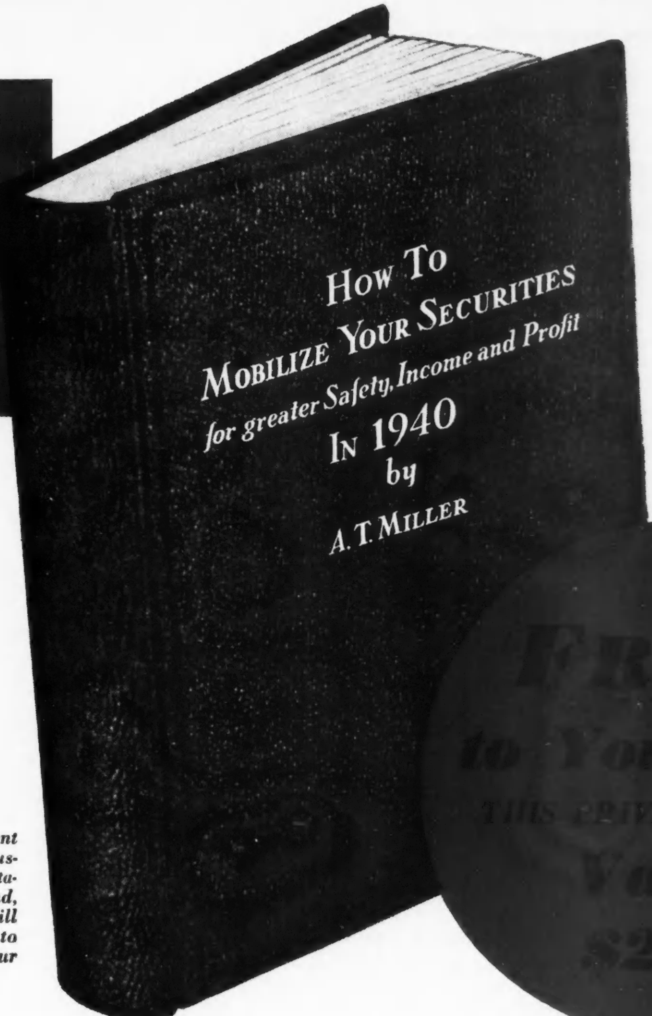

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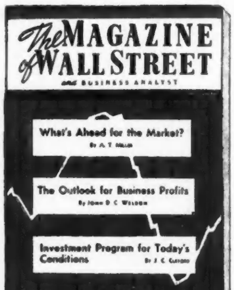

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The Price of One

See Investment Program described on reverse side

Import and Export War Babies

The Important Distinction Between Companies Helped by War Conditions and Those Anticipating War Orders

BY PHILLIP DOBBS

On the day after the Senate voted favorably on revision of our neutrality laws, the Daily Sketch in England made the comment that now the Allies could buy the £90,000,000 worth of planes they needed from us. New York papers bandied billions casually about when the House moved toward passage. That is the sort of easily understandable thing that creates enthusiasm. If it is to be followed by any concrete action that makes such purchases seem likely and imminent, then the war babies have quite a future before them.

War orders are the unknown and fascinating quantities in the picture today as the United States opens its markets to a belligerent world. Even while arms were still embargoed, the placing of orders for certain essentials not forbidden had the effect of whetting appetites and putting analysts to work deciding what other companies and lines of business would be next to benefit. Liking neither the term war babies nor the role of profiteers in the present catastrophe, American investors have nevertheless been forced to recognize the importance of the war in the outlook. However much they may regret the necessity, they cannot avoid the attempt to foresee what is in the act of happening to the many companies affected.

Unfortunately, the predictions here and abroad of billions in immediate orders ready to be placed can be accepted at face value only by those who are convinced by their wishes. Modern war, they say, uses seven times as much steel as in the World War. Yes, but modern war seems so far to proceed at one-tenth the pace, to destroy very little. Furthermore, as Dr. Winkler pointed out in the MAGAZINE OF WALL STREET a month ago, England has greatly increased her steel-making capacity in the last twenty-five years, and France has available to her the steel districts that were lost at the very start of the last war. There will probably be orders for steel placed in this country, but they will represent shopping on the part of the purchasers, not a mad scrambling to get supplies at any price.

All the companies commonly thought of as war babies—the aircrafts, steels, chemicals, trucks, machine tools and so on—expect to sell their products abroad. Their orders depend upon not only the needs of the Allies but their ability and willingness to buy in this country as well. If the war is a "slow" one, some of them may be surprised by the few orders that will come their way.

The war babies that have no expectation of receiving a single foreign order or of shipping a single cargo abroad, on the other hand, suffer from none of these limitations. Their position is not so obviously affected by the war, but it is even more surely helped. To them the danger that interference with shipping may prevent sales is non-existent. They do not have to worry about England's very logical policy of buying within the Empire where possible. They do not have to worry about future revisions in our own laws which might tax the profits out of war orders or impede shipments of munitions in some way.

The distinction is that these war babies depend upon the *import* situation rather than the *export* for their advantage. It is enough for them that the war is interfering with normal imports or threatening to do so and thereby raising the price of their own or a competing product. The most prominent example is the paper industry, but there are many others where the influence is felt in varying degree. The International Agricultural Chemical Co. is planning a $2,500,000 plant to produce potash, now that the supply from abroad is being dammed; American Potash Co. is another beneficiary; others in the field of fertilizers are affected. The runup in the price of rubber not only encourages the possible use of the substitutes developed by du Pont, U. S. Rubber, Dow Chemical and others, it also brightens the prospects for such a concern as Intercontinental Rubber which produces the material from guayule shrubs, and for the rubber reclaiming industry which is affected by crude prices.

Freeport Sulphur's subsidiary, Cuban-American Manganese Corp., has been helped by the gain in steel operations and by the threat to manganese supplies furnished by the war. Substitutes for tin, for which we depend entirely on imports, may very possibly be found in silver; at least that is the plan seriously put forward by the domestic silver producers. Artificial textiles, or rather synthetic textiles, should gain from any scarcity in wool or, if the war should spread, in silk. The cement companies have been meeting competition from foreign companies which has managed to unsettle price conditions but should now be materially (*Please turn to page* 193)

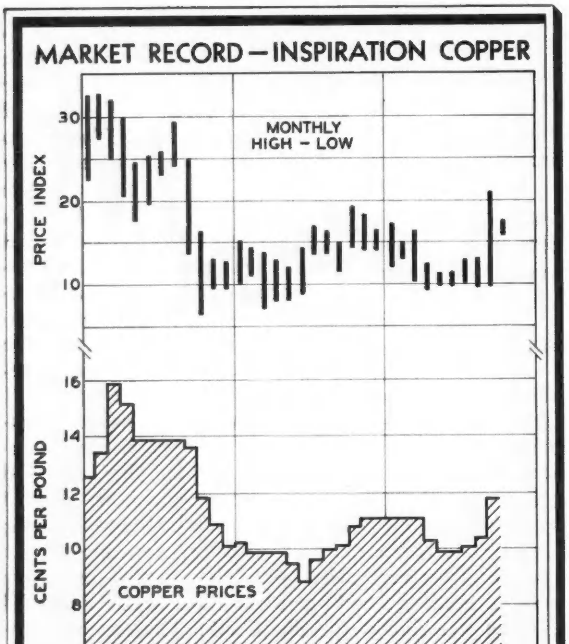
A Speculation in Copper

Shares of Inspiration, a Marginal Producer, Are Among the Most Volatile in Percentage Fluctuation

BY WARREN E. KRAEMER

By mixing a soft red metal with tin man launched the Bronze Age, a focal point in the march of civilization. Today we are infinitely farther advanced technologically, yet the red metal—copper—plays, if anything, an even more important part in our economy. Hundreds of thousands of tons of it go into generators, telephone and telegraph wires, light and power lines, automobiles, refrigerators, and countless other manufactures annually. With demand centered in the producer industries and luxury groups, copper sales are a sensitive barometer of industrial activity, often warning of trouble ahead or heralding a marked improvement before it becomes evident in other phases of business.

Copper mining and smelting companies fall into two general classifications, integrated low cost producers with extensive holdings, and marginal producers. Volatile

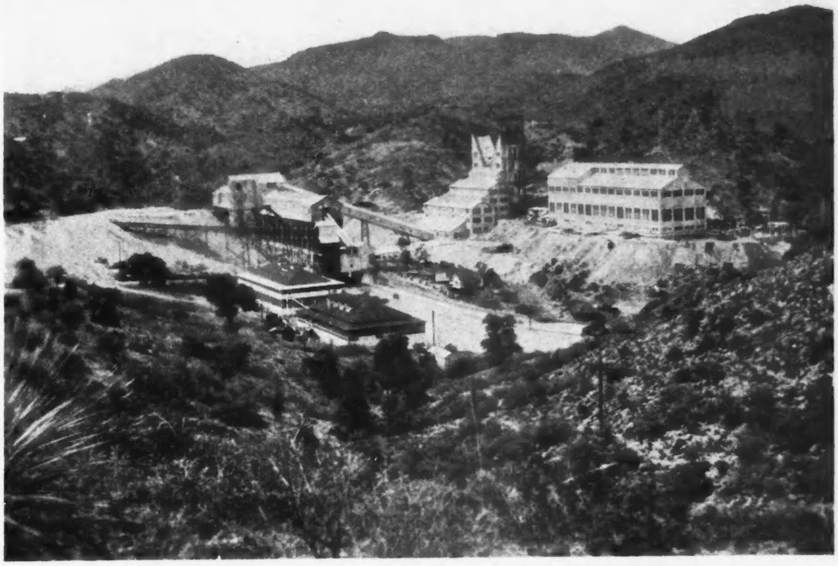


earnings are characteristic of the industry—but the marginal companies trade heavily on this favor and in the last decade some have ended more years with a red figure than with a black one. However, under present conditions this group enjoys a speculative position that holds promise of increased earnings. And outstanding among individual companies worthy of consideration is Inspiration Consolidated Copper. It owns and operates one of the largest porphyry deposits in the state of Arizona, the ranking producer in the Union. The ore is low grade, though, and presents some mining difficulties that make the company a high cost producer. Therefore, output fluctuates widely since it is cheaper to suspend operations entirely whenever the price of copper drops too low than to continue mining at a substantial loss on every ton. Nor is the company strong enough to produce to inventory with the object of holding the refined metal against a rise in market price. Thus for the four years from the middle of 1932 to the latter part of 1935 when copper averaged about 7.52 cents per pound, Inspiration shut down its mines completely. Naturally this resulted in a loss every year, since certain administrative expenses go on as long as the concern remains in business, and interest on indebtedness had to be met, but it was the only logical course of action.

Under favorable conditions, maximum capacity is estimated at 130,000,000 pounds of copper annually, and in 1934 engineers reported that reserves of mixed ores could be conservatively set at 69,000,000 tons. On the basis of average production for the years 1925-29 inclusive this is enough to last for another twenty years. Modern ore-crushing, milling, leaching, and refining equipment is owned and operated by the company, but most of the smelting and refining is done by the International Smelting and Refining Corp., a subsidiary of Anaconda Copper Mining Co. It handles Inspiration's concentrates and cement copper at an Arizona plant and does the casting of the electrolytic cathode copper in New Jersey. Power is essential for mining and milling operations and a good portion of Inspiration's needs are supplied by its own turbo-generators. They have a total capacity of 30,000 kilowatts and any needs above this are purchased outside.

In common with most copper companies, Inspiration has interests of an affiliate nature. During 1920, in con-

junction with a number of other mining concerns operating in the Southwest, a majority control of the Apache Powder Co. was acquired. This enabled them to meet their blasting powder needs on a favorable basis. Even shipping charges were reduced since the explosive plants are located right in Arizona. In 1918 Anaconda and Inspiration both bought 8,160 shares or a 50 per cent interest apiece in the Arizona Oil Co., which owns and operates a tract of oil-bearing land in Bakersfield, Calif. And until 1930 the company pursued a conservative expansion policy by buying property in the vicinity of its main deposits, and of absorbing smaller companies. In this way it acquired all the assets of the New Keystone Copper Co. in exchange for 39,797 shares of stock computed on the par value basis of $20 per share. In 1923-24 approximately 200 acres of rich land were purchased, some outright and some jointly with other small copper companies.



View of the Inspiration Mine deep in the mountains of Arizona.

Current finances of the company are in good shape. At the end of last year quick assets were $3,824,563 of which $459,645 represented cash against current liabilities of only $494,814. The principal change in current position from the year before was a reduction of almost $1,000,000 in cash reflecting in part a reduction in notes payable by over $600,000, in accounts payable by $140,000, and an operating deficit of some $324,000. In addition to 1,181,967 shares of common stock the company has a funded debt of $7,000,000 in 5 per cent mortgage bonds due in 1952 that are pledged against notes held by Anaconda Copper. In June of this year a refunding program was put through that will save about $140,000 per year in interest. Until that time the issue consisted of slightly over $7,000,000 in 7 per cent bonds that were also pledged. Under the plan, the reduction in rate was made possible by Anaconda's practically discounting Inspiration's notes by placing a $5,000,000 note issue of its own with three New York banks—albeit at ½ per cent to 3 per cent rates dependent on length to maturity. The additional $2,000,000 will be carried by Anaconda alone and matures in five years with the rate at 5 per cent.

Production Costs Are a Problem

Anaconda's interest in the welfare and operations of Inspiration is explained by the fact that it owns all the stock of Mines Investment Co., which in turn owns about 28 per cent of Inspiration's common stock. The relationship between the two companies has been cordial, and has enabled the marginal concern to pull through some bad years in comparatively good shape.

Production costs are the major factor holding Inspiration back from turning in a first rate performance. But if by any miracle they should succeed in effecting a material reduction in operating expenses, the change would in all probability be a technological one that the present leaders could institute. This would, of course, put Inspiration right back in its present relative position, since the price of copper would seek lower levels. What this problem means to the company can be judged by a comparison of costs with a leading producer, Kennecott Copper. Production costs per pound of domestic copper for the latter run around 6½ cents against approximately 9 cents per pound for Inspiration. Though some progress has been made towards effecting economies, it is easily seen that prosperity for the company hinges on a higher level of copper prices than prevailed during the greater part of the last decade.

Given more normal business condition, however, Inspiration has proved its ability to turn in a profit. The year 1937 was a good year, admittedly one of the best as far as the copper industry was concerned, and the company reported a net profit of $1.61 per share. Last year, losses were $0.27 per share though production was cut from 104,000,000 pounds of copper the year before to a mere 33,000,000 pounds. The extent to which costs have risen is indicated by the fact that in 1936 when copper averaged 9.58 cents per pound, net profit for the year was $0.30 per share but during last year when copper prices held at 10.10 cents per pound, a loss was reported.

Of vital importance to Inspiration of course is the present situation in the copper market. Prices, which had been holding around 10.50 cents per pound until September, shot ahead with the declaration of war. At 12 to 12.50 they halted and have remained there since then although Japanese interests have had to pay as high as 13 cents per pound to get delivery. A calmer review of the picture after the first rush to buy copper reveals that there have been startling changes in the industry since the last World War.

In 1917 the United States controlled through its domestic mines and foreign holdings about 75 per cent of the world copper output. Natur- *(Please turn to page 190)*

For Profit and Income

Dividend Notes

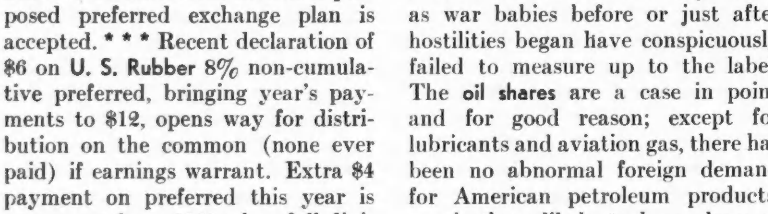
Recent declaration of $1 a share extends for another year **Pennsylvania Railroad's** unbroken dividend record since 1847. Since incorporation 94 years ago the road has paid out over a billion dollars. * * * After an eight year lapse, **Marshall Field** will resume payments on common with a declaration of 30 cents next month if proposed preferred exchange plan is accepted. * * * Recent declaration of $6 on **U. S. Rubber** 8% non-cumulative preferred, bringing year's payments to $12, opens way for distribution on the common (none ever paid) if earnings warrant. Extra $4 payment on preferred this year is carry-over from 1938 when full dividend was earned but only half of it paid. * * * **GM's** $1.25 payment puts $12,500,000 or $1.13 per share in **du Pont's** pocket. In turn, **GM's** till is swelled by $1,500,000 by virtue of **Bendix's** and **North American Aviation's** $1 distributions.

War Babies Reappraised

With two and a half months of war market gone by, it is apparent that some of the issues widely touted as war babies before or just after hostilities began have conspicuously failed to measure up to the label. The **oil shares** are a case in point and for good reason; except for lubricants and aviation gas, there has been no abnormal foreign demand for American petroleum products, nor is there likely to be as long as the war proceeds at its present tempo. An even more striking example is to be found in the **sugar stocks** which have lost almost all of their initial gains after September 1; boomerang price action of the staple itself is the answer.

Slants on the Market

Differences of opinion are what make a market. One Street observer points out that while business itself can't get much better, the market, which is far behind, needs only a psychological spark to lift it out of its present rut. On the other side of the fence are those holding the view that because war profits cannot be other than ephemeral, there is no reason why they should be capitalized marketwise; in other words, current price-earnings ratios are not so low after all. Finally there are those who argue that while it may not go up, the market has insured itself against major decline since, by failing to keep pace with the upsurge in business, it has already largely discounted any subsequent business decline.



Testing inner tubes at Goodyear Tire & Rubber for possible leaks.

Rubber Companies

Goodyear's recent cut in tire prices, since met by **Goodrich** and **Firestone**, has stirred up some foreboding anent the industry despite the official explanation that the reductions merely reflect operating economies. It is felt in some quarters that tire inventories may be a little bulky and the cut-throat price tactics of the industry for many years prior to late 1935 have not been forgotten. **U. S. Rubber** has not lowered list quotations but will allow dealers extra discounts in order to meet competi-

tion. Marketwise, incidentally, there is talk of foreign selling in the latter which is known to have been popular with British investors.

French Copper Buying

When British copper demand was diverted entirely to empire sources not long after the war began, uncertainty arose as to what disposition would be made of the South American output of **Anaconda, Kennecott** and **Cerro de Pasco** if Britain should be able to supply not only her own needs but those of France as well. Fears on this score have now been laid to rest by the French Government's negotiation of large purchase contracts with South American as well as African producers. To run for the duration of the war, the contracts provide for shipment of 56,000,000 pounds of the red metal monthly and fix a price of $12\frac{1}{2}$ cents for the first six months. Together with normal demand of neutral countries, this business will keep South American mines of the companies mentioned at an entirely satisfactory production rate for an indefinite period ahead.

Quality of Trading

Insiders were quite definitely on the selling side of the market's war spurt, recently published S E C figures reveal, their ratio of sales to purchases in September running about $4\frac{1}{2}$ to 1. Several blocks of more than 10,000 shares were disposed of, notably in **Union Carbide, Chrysler, Phillips Petroleum** and **Crucible Steel.** The public at large did much of its buying for cash at that time but more recently brokers' loans have been expanding, indicating a gradual accumulation of margin buying. In the latter connection, disproportionate activity in the low-priced sections of the list of late has raised further doubts as to the quality of recent buying. In one recent session, five of the ten most active stocks were issues selling under $5.

Milk Containers

New York's principal dairy products distributors, **Sheffield Farms** and **Borden,** have pulled a neat finesse against the psychological squeeze play by municipal authorities on the one hand and Government abetted farmers on the other by the introduction of paper containers that will lop $1\frac{1}{2}$ cents per quart off the price of milk. **American Can,** which will supply the containers, stands to gain by the move and, should additional markets be developed in other cities, the company's business in this line should eventually more than offset prospective lower profit margins on cans as a result of recently announced price reductions. The outlook is somewhat less rosy, however, for **Thatcher Manufacturing,** leading maker of milk bottles.

Street Topics

Du Pont's twentieth cut in cellophane prices brings the product down to 12% of its original price. If Nylon goes the same way, women's stockings of quality superior to silk ones now costing $1 a pair will some day be on sale at something like 25 cents * * * **Macy's** and other merchandising issues have been perking up on the prospects of an inordinately good year-end season. * * * Rate increase on Government telegrams recommended by the F C C would add about $500,000 or 50 cents a share annually to **Western Union's** revenues. * * * Back wages that the Court of Appeals ordered **Republic Steel** to pay to strikers laid off in 1937 will cost the company $1.34 per share unless the decision is reversed by the Supreme Court. * * * **Bendix Aviation** estimates its 1940 aircraft business alone will amount to about $30,000,000 against $16,000,000 this year. New capacity is being added to handle increased volume.

Developments in Companies Recently Discussed

On October 31, Montgomery Ward completed what was easily the best third quarter in the company's history. Final month sales were 17.7 per cent above 1938 levels, thus widening year to year gains of earlier months. Declaration of a substantial year-end extra dividend is expected when the directors meet later this month.

Third quarter operating results of International Nickel are understood to have been slightly in excess of the 53 cents per common share reported for the June period. Steel makers comprise about 60 per cent of the company's market in this country and the steel boom is thus aiding current operations. Under the new Canadian taxes, Nickel will not be subjected to severe charges unless earnings mount well above present levels.

Shipments of Vanadium Corp. continue to run about 20 per cent ahead of last summer and it is expected that fourth quarter earnings will top the approximate $1 per share estimated to have been earned in the September period. Full year results should thus be in excess of $3 since $1 was reported for the six months ended June 30. Company's sales are closely geared to steel operations.

New York Air Brake is reported to have booked orders for about 20,000 sets of brakes since the beginning of the railroads' equipment buying campaign. At normal operating rates, this business would be enough to keep the company's plants at capacity for four or five months though operations can be stepped up by means of extra shifts if need be. Current quarter results will be substantially in excess of last period's.

October bookings of General Electric were approximately half the $79,500,000 total of new business placed in the entire third quarter. If the same rate of gain continues through the remainder of the year, final period bookings will set a new all time record. Central station, transmission, distribution and industrial equipment lines, where profit margins are widest, have shown outstanding improvement.

International Agricultural Chemical will step into the potash field in a major way with the projected construction of a $2,500,000 plant in New Mexico. Up until this year, potash consumers in the United States (mostly fertilizer manufacturers) have been largely dependent on German controlled sources of supply. International's new plant, which will have an annual capacity of 70,000 tons, will be a long step toward ultimate independence of imports.

Reflecting the pickup in heavy industry, oxygen sales of Union Carbide have been reaching record levels. The company has licensed American Viscose to make yarn of Carbide's new synthetic textile resin, Vinyon, similar to du Pont's Nylon but better adapted to use in industrial fabrics than in hosiery. Sales of other chemicals rising rapidly.

A fleet of Mack trucks employed in the building of the new Marine Corps airport at Quantico, Va.

What War Orders Mean To the Truck Makers

Big Military and Commercial Demand in Sight

BY STANLEY DEVLIN

WHETHER or not the upsurge in general business activity since the beginning of September can properly be labeled a war boom is a moot question. But one thing at least is certain—bona fide war orders have had almost no part whatever in the rise. Which is what made front page news of a recent report by the French Economic Service that that country had just contracted for 3,500 to 4,000 American trucks to be used in military service abroad.

Details of the purchase have understandably been withheld. White Motor will supply 1,500 to 2,000 of the units in question, the final number depending on how many the company can deliver by January 1, but nothing as to the dollar amount involved is available. Reading between the lines of the French dispatch, it is gathered that Studebaker will build all or most of the remainder which, it is understood, will cost about $3,500,000.

Now, a $3,500,000 order is not to be sneered at even by a company whose net sales in the depression year 1938 amounted to almost $44,000,000. But it is nonetheless obvious that of the two companies mentioned, White will enjoy a relatively greater windfall of sales and earnings as a result of the French orders. For even if it can deliver only 1,500 trucks by the year's end, these will amount to almost half its total unit sales for the first nine months of 1939. This business, moreover, is superimposed upon a sharply rising trend of domestic demand.

While they mean a good deal to the companies handling them, these orders in themselves will not add greatly to the output of truck builders as a whole in coming months. Rather, their significance lies in the probability that they are merely forerunners of substantially larger ones in 1940 or possibly sooner. Indeed, several weeks prior to the placing of the orders mentioned above, the French government had put out a blanket inquiry for a total of more than 20,000 trucks and there is little question but that business actually placed would have been of much larger proportions had the buyer not specified delivery by the end of the year. It is pointed out in the trade that this was impossible, except on comparatively small orders, since steel for parts cannot be had in less than 60 days and another 15 to 30 days are required to machine it. Under existing conditions in the steel industry, three month delivery is about the best manufacturers can promise on large orders.

The vehicles ordered by France were of 2½ ton capacity, a point of considerable significance to the independent truck makers. For if war orders, as seems likely, are to be mostly for medium and heavy duty units, it will be the latter concerns rather than the truck divisions of the large automobile companies that will benefit most.

It probably is not generally appreciated that the "big three" motor makers plus International Harvester turn out between 85 and 90 per cent of all trucks produced in this country. The truck companies proper, together with Studebaker and Willys-Overland, accounted for only 42,874 of the 337,096 total new registrations in the first eight months of this year.

Predominance of Chevrolet, Ford, International, Dodge and GMC (produced by GM controlled Yellow Truck & Coach) is due to the fact that these makes, for the most part, are confined to the lighter weight categories—less than 1 ton. Of the five, only the International and GMC names are to be found on heavy duty vehicles.

The trend from heavy to light trucks over the past ten years has been quite marked. Units of ¾ tons or less, which accounted for only 17 per cent of total truck production in 1929, currently comprise close to 45 per cent. The shift has been prompted by lower initial cost of the lighter units, higher speeds, savings in operating expense and various local legislative restrictions penalizing the heavier units, especially the behemoths of 6 to 10 tons and upwards used mainly in the construction industries and for long haul, interstate trucking.

The independent companies are not in a position to compete effectively with the large volume makers which have natural advantages in the production and sale of lighter vehicles and have just about pre-empted this end of the business. However, demand for heavy trucks, over and above that to be expected from a protracted war abroad, remains substantial in periods of anything like normal activity in the capital goods and construction industries. Also, most of the independent truck makers produce passenger buses for which demand is gradually increasing due to their displacement of trolley cars for urban service and to multiplication of inter-city bus lines.

Because demand for heavy trucks is subject to wide cyclical variation, almost all of the independents have shown substantial losses in recent depression periods. In some cases, including Autocar, White Motors, Yellow Truck and Reo (which, however, has been exclusively a truck and bus manufacturer only since 1936), red ink years have outnumbered black over the past decade. In 1938, the only truck maker to show an even nominal profit was Diamond T. Though neither of them are strictly in the truck manufacturing category, Freuhauf Trailer (commercial trailers and carry-alls for use with tractor-trucks) and Twin Coach (urban buses) also made money last year.

Largest of the independents are, in order of size, Yellow Truck, Mack and White. These concerns have all introduced lighter type vehicles in recent years, but, with the possible exception of Yellow, their most lucrative business still remains in the heavy field. Each is also important in the production of buses and coaches and has gone in, too, for special lines such as fire-fighting equipment (Mack), delivery cars (White), trailers and taxicabs (Yellow).

Smaller concerns include Autocar, 63 per cent controlled by Phoenix Securities and specializing in medium and heavy duty trucks and tractor units; Diamond T, which produces vehicles ranging from ¾ to 5 tons capacity, normally exports about a quarter of its output and, unlike most other concerns in the industry, buys parts from outside suppliers; Federal, making mostly medium and heavy trucks (though it has added lines down to ¾ tons) and doing a substantial U. S. Government and overseas business; and the perennially unprofitable Reo which withdrew from the production of passenger cars three years ago to concentrate in the commercial vehicle field where, however, it has not perceptibly improved its lot. Other makes include Broackway, Divco, Sterling and Indiana.

Companies Favored for War Business

Of the companies mentioned, the three largest, possibly together with Diamond T and Federal, appear best situated to cash in on further war orders though Mack, due to its small interest in the export field heretofore, and Yellow, because of its comparatively greater stake in lighter vehicles, may be somewhat less favored from a standpoint of prospective gains than White.

If, however, military orders are forthcoming to the extent expected—and it would not be surprising if 25,000 or more trucks were ordered by Britain and France before spring—there should be ample business for all equipped to handle it. It is estimated that truck sales this year will be in the neighborhood of 700,000 units or about 40 per cent above the 488,000 figure of 1938. Assuming that about half this year's output will be of units of less than 1½ or more than 3½ tons, war orders of the proportions suggested (if confined to units of 1½ to 3½ tons) would add about 11 per cent to semi-annual sales volume in the categories affected. *(Please turn to page* 191)

Five Truck Builders Compared

	Earnings Per Share		Dividends		Price Range 1939 To Date		Recent
	9 Months 1938	9 Months 1939	Full Year 1938	To Date 1939	High	Low	Market Price
Diamond T	0.01	0.35	$0.25	None	10½	5⅛	8
Federal Motor	d0.23a	d0.17a	None	None	6⅜	2⅛	5
Mack Trucks	d1.26	0.41	0.25	None	33¾	18	30
White Motor	d1.42a	d0.75a	None	None	15¾	7	13
Yellow Truck	d0.13	0.35	None	None	21⅞	11⅝	19

a—Six months ended June 30; company reports semi-annually. d—Deficit.

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Program	*No. of Stocks*	*Profit*	*Loss*	*Cash Profit in 10 Share Units*
Trading Advices	6	61¼	4¾	$565.00
Unusual Opportunities	6	31⅜		313.75
Bargain Indicator	6	63	4¾	582.50
				$1,461.25

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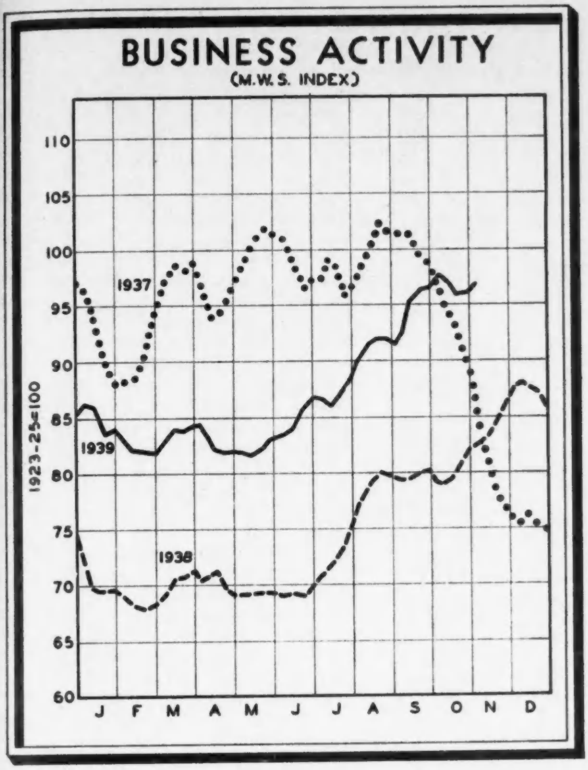


CONCLUSIONS

INDUSTRY — Business expansion resumed; but production still exceeds consumption.

TRADE—Department store sales dip temporarily.

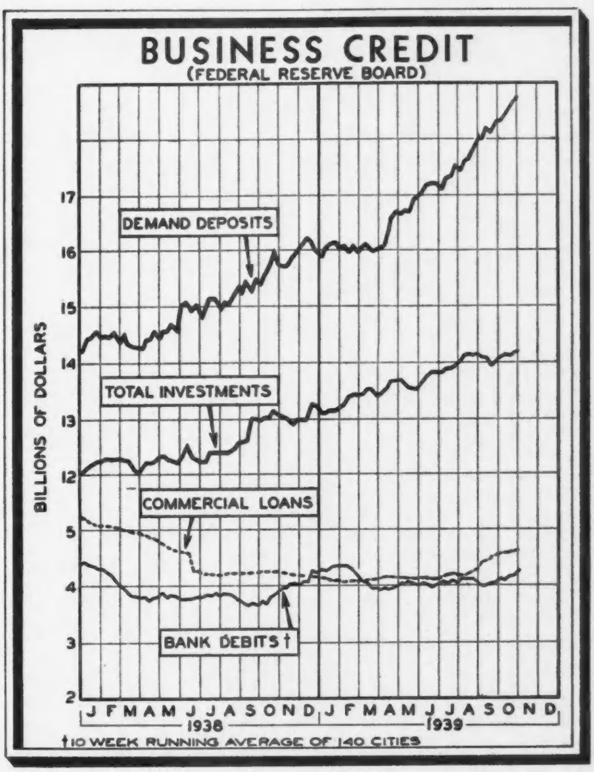
COMMODITIES — Supply - demand factors again dominant.

MONEY AND CREDIT—Federal Reserve banks begin reducing longer term bond holdings.

The Business Analyst

Although Chrysler assembly lines remain idle, other motor car makers are expanding production rapidly and this publication's Index of per capita **Business Activity** has risen nearly a point during the past fortnight—Soft Coal production and Lumber shipments being the only components to report greater than seasonal contraction. These two exceptions are attributable, respectively, to shortages in coal cars and to the recent drop below last year's level in new orders placed for Lumber. For the month of October, per capita Business Activity was 96.5% of the 1923-5 average, compared with 95.0 in September and 80.4 for October, 1938. It augurs none too well for the first quarter of 1940 that the Federal Reserve Board's index of **Industrial Production** (not compensated for population growth) spurted in October to 120% of the 1923-5 average, from 111 in September; whereas our own index, which is constructed to cover all forms of business activity—including the production, distribution and sale of both goods and services—advanced only two points on the same basis, to 112 in October, from 110 in September. This would seem to indicate that production in October ran considerably ahead of consumption. For September, our own index and that of the Federal Reserve Board were in substantial agreement.

(Please turn to next page)



Business and Industry

	Date	Latest Month	Previous Month	Last Year
INDUSTRIAL PRODUCTION (a)	Oct.	120(pl)	111	96
INDEX OF PRODUCTION AND TRADE (b)	Sept.	90	86	79
Production	Sept.	88	85	78
Durable Goods	Sept.	73	68	55
Non-durable Goods	Sept.	96	94	91
Primary Distribution	Sept.	86	80	74
Distribution to Consumers	Sept.	97	93	86
Miscellaneous Services	Sept.	84	83	77
WHOLESALE PRICES (h)	Oct.	79.1(pl)	79.1	77.6
INVENTORIES (n. i. c. b.)				
Raw Materials	Aug.	89.6	94.0	109.6
Semi-Finished Goods	Aug.	106.7	110.8	114.7
Finished Goods	Aug.	111.7	110.8	111.8
COST OF LIVING (d)				
All items	Sept.	85.9	84.5	85.9
Food	Sept.	80.7	76.7	80.4
Housing	Sept.	86.5	86.3	86.6
Clothing	Sept.	72.2	71.9	73.3
Fuel and Light	Sept.	84.4	84.0	85.0
Sundries	Sept.	97.0	96.9	96.8
Purchasing value of dollar	Sept.	116.4	118.3	116.4
NATIONAL INCOME (cm)†	Sept.	$6,012	$5,393	$5,657
CASH FARM INCOME†				
Farm Marketing	Sept.	$781.0	$601.0	$718.0
Including Gov't Payments	Sept.	847.0	643.0	745.0
Total, First 9 Months	1939	5,441.0	......	5,357
Prices Received by Farmers (ee)	Oct.	97	98	95
Prices Paid by Farmers (ee)	Oct.	122	122	121
Ratio: Prices Received to Prices Paid (ee)	Oct.	80	80	79
FACTORY EMPLOYMENT (f)				
Durable Goods	Sept.	89.7	84.1	75.9
Non-durable Goods	Sept.	109.9	108.1	107.3
FACTORY PAYROLLS (f) (not adjusted)	Sept.	93.7	89.8	81.6
RETAIL TRADE				
Department Store Sales (f)	Oct.	90	91	84
Chain Store Sales (g)	Sept.	114.5	113.0	109.0
Variety Store Sales (g)	Sept.	119	116	115
Rural Retail Sales (j)	Sept.	125.4	131.1	114.6
Retail Prices (s) as of	Oct. 1	90.2	89.5	89.0
FOREIGN TRADE				
Merchandise Exports†	Sept.	$288.6	$250.8	$246.3
Cumulative year's total† to	Sept. 30	2,184.9	......	2,295.4
Merchandise Imports†	Sept.	181.5	175.8	167.6
Cumulative year's total† to	Sept. 30	1,620.6	......	1,434.9
RAILROAD EARNINGS				
Total Operating Revenues★	1st 9 mos	$2,862,080	......	$2,573,535
Total Operating Expenditures★	1st 9 mos.	2,141,495	......	2,015,317
Taxes★	1st 9 mos.	266,677	......	255,414
Net Rwy. Operating Income★	1st 9 mos.	355,010	......	205,445
Operating Ratio %	1st 9 mos.	74.82	......	78.31
Rate of Return %	1st 9 mos.	1.91	......	1.10
BUILDING Contract Awards (k)	Sept.	$323.2	$312.3	$300.9
F. H. A. Mortgages				
Selected for Appraisal†	Oct.	99.2	91.7	97.5
Accepted for Insurance†	Oct.	74.2	62.0	64.6
Premium Paying†	Oct.	61.1	53.4	58.4
Building Permits (c)				
214 Cities†	Sept.	$84.5	$91.8	77.8
New York City†	Sept.	18.7	26.0	24.0
Total, U. S.†	Sept.	103.2	117.8	101.8
Engineering Contracts (En)†	Oct.	$245.1	$209.3	$235.9

PRESENT POSITION AND OUTLOOK

(Continued from page 177)

It is possible that the threatened first quarter recession may be cushioned, or even averted, by sufficient expansion in domestic and foreign demand for goods to absorb accumulating inventories; but the factual background for such a happy outcome is none too promising. True, a considerable portion of the current heavy production of ferrous and non-ferrous metal products will be "consumed" through manufacture into machine tools, railroad equipment, motor cars, and new buildings; but expansion in consumption of consumers' goods calls for a considerable reduction in **unemployment,** which was still estimated at 8,798,000 in September, a decline of only 6.7% from August, despite the high level of industrial production. So far as foreign demand is concerned, the total volume of war orders—except in special categories such as airplanes, motor trucks, and copper—is likely to prove disappointing so long as battle fronts on land remain comparatively inactive. During September, our merchandise **exports** plus **imports** amounted to only 8% of the domestic **national income** of $6,012,000,000 for that month. Even if our total foreign trade should increase by as much as 50% next year, the addition to our national income would amount to only 4%.

* * *

Earnings of 320 industrial companies in the third quarter were about on a level with the second quarter, and 93% above aggregate profits during the third quarter of 1938, compared with a cumulative increase of 98% for nine months. Dividends declared in October were 10% above last year, against a 10-months' gain of only 3%. Number gainfully **employed** in the U. S. during September totaled 45,943,000, an increase of 685,000 over August. **Unemployment** declined by 1,896,000, or 18%, during seven months between September and the high point in February, compared with a rise of 16.1% in **business activity. Cost of living** increased 2% between August and September. **Department store sales** in the week ended Oct. 28 were 5% above last year, compared with a four-weeks' increase of 9%. Inventories at the end of September were 0.6% lower than a year earlier. According to the Department of Commerce, sales by **wholesalers** in September were 16.5% above last year, against an increase of only 6.8% for nine months; while producers' sales rose 21.7%, compared with 11.9% for nine months.

* * *

Railroad n. o. i. in September was 72% above last year, compared with an increase of 73% for nine months. Net income for September was $36,000,000, against a nine-months' deficit of $38,647,000. Carriers are expected to end year in the black.

* * *

Building permits awarded in September were 9.7% above last year, against a 9-months' increase of 24.3%.

	Date	Latest Month	Previous Month	Last Year
STEEL				
Ingot Production in tons★	Oct.	5,394	4,231	3,106
Pig Iron Production in tons★	Oct.	3,628	2,879	2,052
Shipments, U. S. Steel in tons★	Oct.	1,219	985	663
AUTOMOBILES				
Production				
Factory Sales	Sept.	188,751	99,868	83,534
Total 1st 9 Months	1939	2,459,875	......	1,518,814
Registrations				
Passenger Cars, U. S. (p)	1st 9 mos.	1,956,043	......	1,344,998
Trucks, U. S. (p)	1st 8 mos.	337,096	......	269,913
PAPER (Newsprint)				
Production, U. S. & Canada★ (tons)	Oct.	359.6	330.5	327.7
Shipments, U. S. & Canada★ (tons)	Oct.	368.6	345.6	327.3
Mill Stocks, U. S. & Canada★ (tons)	Oct.	208.5	217.9	214.9
LIQUOR (Whisky)				
Production, Gals.★	Sept.	4,985	4,392	4,997
Withdrawn, Gals.★	Sept.	6,793	5,098	5,845
Stocks, Gals.★	Sept.	472,499	475,371	467,497
GENERAL				
Paperboard, Unfilled Orders (sf)	Sept. 30	290,467	119,592	109,238
Railway Equipment Orders (Ry)				
Locomotive	Oct.	34	52	29
Freight Cars	Oct.	11,220	24,231	2,435
Passenger Cars	Oct.	28	3	None
Cigarette Production†	Sept.	14,790	14,260	14,711
Bituminous Coal Production★ (tons)	Sept.	37,695	34,688	32,286
Boot and Shoe Production Prs.★	Sept.	35,902	43,581	38,280
Portland Cement Shipments★	Sept.	13,104	13,401	11,716
Commercial Failures (c)	Oct.	916	758	997

PRESENT POSITION AND OUTLOOK

Despite the Chrysler strike, **automobile** production is currently 4% above last year. Domestic retail sales during the first 20 days of October were 67% ahead of September, and 120% above the first 20 days of October, 1938. Fourth quarter production estimates for the industry have been reduced because of the prolonged shut-down of Chrysler assembly lines; but outlook for other makes has consequently been improved.

• • •

Railroad purchases in October came to 11,220 freight cars, 28 passenger cars, 34 locomotives and 508,110 tons of rails. Virtually all of the freight cars ordered last month will be built in outside shops, whereas about half of the 24,300 ordered in September are being built in railroad shops. Rail orders for 10 months total 1,229,847 tons, compared with only 230,115 for the like period last year.

• • •

Though **paperboard** production in September reached the record level of 445,387 tons, unfilled orders increased during the month to 290,467 tons, from 119,502 tons on Aug. 31. North American stocks of **newsprint** on Sept. 30 were slightly below last year. **Whisky** production has been declining since accumulation of stocks for aging reached its peak in 1937.

WEEKLY INDICATORS

	Date	Latest Week	Previous Week	Year Ago
M. S. W. INDEX OF BUSINESS ACTIVITY 1923-25—100	Nov. 4	96.8(pl)	95.8	82.6
ELECTRIC POWER OUTPUT				
K.W.H.†	Nov. 4	2,537	2,539	2,207
TRANSPORTATION				
Carloadings, total	Nov. 4	805,862	834,096	672,967
Grain	Nov. 4	37,530	40,232	39,460
Coal	Nov. 4	159,476	164,868	128,063
Forest Products	Nov. 4	37,380	37,529	28,338
Manufacturing & Miscellaneous	Nov. 4	323,383	337,971	270,357
L. C. L. Mdse	Nov. 4	159,157	159,348	157,834
STEEL PRICES				
Pig Iron $ per ton (m)	Nov. 7	22.61	22.61	20.61
Scrap $ per ton (m)	Nov. 7	20.63	20.96	14.50
Finished c per lb. (m)	Nov. 7	2.236	2.236	2.286
STEEL OPERATIONS				
% of Capacity week ended (m)	Nov. 11	93.0	93.0	61.0
CAPITAL GOODS ACTIVITY (m) week ended	Nov. 4	100.8	101.0	74.7
PETROLEUM				
Average Daily Production bbls.★	Nov. 4	3,501	3,499	3,629
Crude Runs to Stills Avge. bbls.★	Nov. 4	3,465	3,520	3,244
Total Gasoline Stocks bbls.★	Nov. 4	73,262	72,660	69,303
Gas Fuel Oil Stocks, bbls.★	Nov. 4	109,860	110,041	120,343
Crude—Mid-Cont. $ per bbl	Nov. 11	1.02	1.02	1.02
Crude—Pennsylvania $ per bbl	Nov. 11	1.88	1.88	1.28
Gasoline—Refinery $ per gal.	Nov. 11	0.06⅞	0.06⅞	0.06⅛

PRESENT POSITION AND OUTLOOK

Owing to expanding industrial production, **electric power output** is declining at a less than normal seasonal rate and is now running about 15% above last year. Revenues from the sale of natural and manufactured gas during eight months were 5.5% above the like period last year. This compares with an increase of 2.2% in number of customers.

• • •

In defiance of the normal seasonal trend, the **steel operating rate** has risen to an all time record level, which assures fairly satisfactory profits for the fourth quarter despite somewhat higher cost of raw material. Earnings of 20 Steel companies during the third quarter were 146% above second quarter's profits. Posted prices for first quarter are not expected to be materially higher than quoted for current quarter; though there may be greater reluctance to book new business at less than posted prices. A considerable volume of business for the first quarter has already been placed subject to prices prevailing at time of delivery.

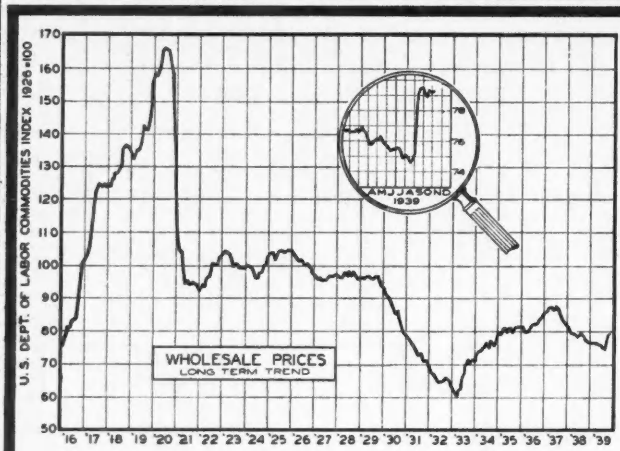
• • •

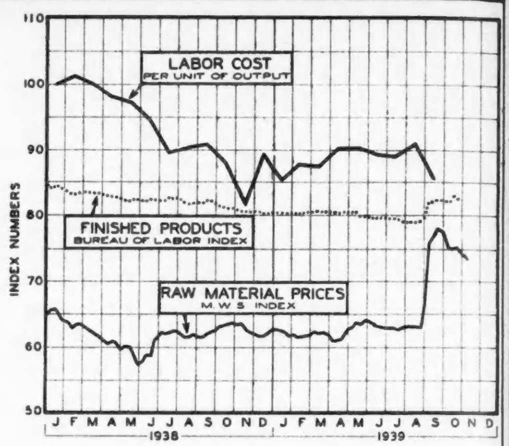
Exports of **petroleum** and oil products during October were below normal, owing to shipping costs and hazards, and the blockading of Germany. Volume of future war time demand is still problematical.

†—Millions. ★—Thousands. (a)—Federal Reserve 1923-25—100. (b)—Federal Reserve Bank of N. Y. 100%—estimated long term trend. (c)—Dun & Bradstreets. (cm)—Dept. of Commerce estimates of income paid out. (d)—Nat. Ind. Conf. Bd. 1923—100. (e)—Dept. of Agric., 1924-29—100. (ee)—Dept. of Agric., 1909-14—100. (En)—Engineering News Record. (f)—1923-25—100. (g)—Chain Store Age 1929-31—100. (h)—U.S.B.L.S. 1926—100. (j)—Adjusted—1929-31—100. (k)—F. W. Dodge Corp. (m)—Iron Age. (n)—1926—100. (n. i. c. b.)—Nat. In. Conf. Bd. 1936—100. (p)—Polk estimates. (pl)—Preliminary. (r)—Revised. (Ry)—Railway Age. (s)—Fairchild Index, Dec., 1930—100. (st)—Short tons.

Trend of Commodities

The past fortnight has witnessed the virtual elimination of the war time factors which played such a prominent role in the movement of commodity prices during the first two weeks of September. Fears of serious shortages in principal import commodities have been largely dissipated. Actual supplies of such commodities as tin, rubber, cocoa, etc., are substantial and as yet there has been no difficulty in obtaining adequate shipping accommodations. Nor does it appear likely that the forced removal of American ships from the war areas will alter the situation adversely. There is plenty of foreign tonnage available. Commodity futures for the most part continue to fluctuate in a relatively narrow trading range, price changes reflecting principally the statistical position of individual commodities. With supply-demand factors again dominant, buyers temporarily at least are relieved of the urgency to place large scale forward commitments.





Changes in Major Commodity Price Groups for the Fortnight Ended Nov. 4, 1939

Farm Products	67.5	no change	Metals	96.2	down 0.1
Foods	72.3	down 0.9	Building Material	93.1	up 0.6
Hides and Leather	104.4	down 1.0	Chemical	77.7	down 0.3
Textiles	75.6	up 0.8	Housefurnishings	89.6	up 0.4
Fuel and Lighting	74.7	up 0.1	Miscellaneous	77.9	up 0.7

	Date	Latest Wk. or Mo.	Previous Wk. or Mo.	Year Ago
COTTON				
Price cents per pound, closing				
October	Nov. 11	8.51	8.53	7.98
December	Nov. 11	9.67	9.35	8.62
Spot	Nov. 11	9.72	9.41	9.27
(In bales 000's)				
Visible Supply, World	Nov. 11	(X)	(X)	......
Takings, World, wk. end	Nov. 11	(X)	(X)	......
Total Takings, season Aug. 1 to	Nov. 11	(X)	(X)	......
Consumption, U. S.	Sept.	625	628	533
Exports, wk. end	Nov. 10	157	194	50
Total Exports, season Aug. 1 to	Nov. 10	1,916	1,759	1,209
Government Crop Est.	Nov. 1	11,845	11,928	11,943(ac)
Active Spindles (000's)	Sept.	22,232	22,012	22,184
WHEAT				
Price cents per bu. Chi. closing				
December	Nov. 11	88⅛	87⅜	63⅞
May	Nov. 11	86⅜	86⅝	66
Exports bu. (000's) since July 1 to	Nov. 4	40,201	38,846	67,246
Exports bu. (000's) wk. end	Nov. 4	1,355	1,763	4,066
Visible Supply bu. (000's) as of	Nov. 4	134,703	136,258	126,037
Gov't Crop Est. bu. (000's) final	Oct. 1	739,445	......	930,801(ac)
CORN				
Price cents per bu. Chi. closing				
December	Nov. 11	50½	50¼	48⅛
May	Nov. 11	52¾	53	51¾
Exports bu. (000's) since July 1 to	Nov. 4	3,917	3,245	46,714
Visible Supply bu. (000's) as of	Nov. 4	26,853	24,524	35,175
Gov't Crop Est. bu. (000's)	Nov. 1	2,591,063	2,532,417	2,542,238(ac)

PRESENT POSITION AND OUTLOOK

Cotton. The Government's crop estimate based on Nov. 1 condition forecast a yield of 11,845,000 bales as compared with the actual crop last year of 11,943,000 bales, and a reduction of 83,000 bales from the Oct. 1 figure. Despite the fact that current prices are higher than a level which would make a Government cotton loan mandatory and with most of the crop out of growers hands and therefore ineligible for loans, a new Government loan has been announced. With the prospect that the carryover of "free" cotton may be larger at the end of the current season than at the beginning, the loan program is apparently designed to offset this potential threat to prices.

* * *

Wheat. Although reports of rainfall in Kansas near the end of the past week brought in some speculative liquidation, winter wheat is in dire need of a thorough soaking. The drought in the Southwest wheat belt is very severe—some reports indicating it to be the worst in history. Recent reports of a somewhat smaller Argentine crop have been welcome, although in the main the world wheat picture remains definitely bearish—even if allowance is made for the possibility of a protracted war.

* * *

Corn. Corn is being held on the farm, growers confident that the loan rate will be fixed between 57 and 60 cents a bushel. Larger livestock herds will increase current farm consumption of corn.

	Date	Latest Wk. or Mo.	Previous Wk. or Mo.	Year Ago
COPPER				
Price cents per lb.				
Domestic	Nov. 11	12.50	12.50	11.25
Export f. a. s. N. Y.	Nov. 11	13.00	12.50	......
Refined Prod., Domestic (tons)	July	57,339	61,719	35,596
Refined Del., Domestic (tons)	July	59,681	53,573	48,071
Refined Stocks, Domestic (tons)	July 31	316,543	335,017	339,997
Refined Prod., World (tons)	July	158,236	173,205	139,483
Refined Del., World (tons)	July	181,487	180,433	177,580
Refined Stocks, World (tons)	July 31	490,419	513,670	523,196
TIN				
Price cents per lb., N. Y.	Nov. 11	49¾	53	47
Tin Plate, price $ per box	Nov. 11	5.00	5.00	5.00
World Visible Supply† as of	Oct. 31	38,206	31,168	38,945
U. S. Deliveries†	Oct.	6,040	5,050	4,960
U. S. Visible Supply† as of	Oct. 31	23,886	13,494	9,302
LEAD				
Price cents per lb., N. Y.	Nov. 11	5.50	5.50	4.95
U. S. Production (tons)	Sept.	39,253	39,000	27,508
U. S. Shipments (tons)	Sept.	59,554	45,025	39,026
Stocks (tons) U. S., as of	Sept. 30	97,702	117,985	131,476
ZINC				
Price cents per lb., St. Louis	Nov. 11	6.50	6.50	5.05
U. S. Production (tons)	Sept.	42,225	40,960	32,328
U. S. Shipments (tons)	Sept.	69,424	49,928	43,582
Stocks (tons) U. S., as of	Sept. 30	95,615	122,814	130,743
SILK				
Price $ per lb. Japan xx crack	Nov. 11	3.35½	3.42½	1.84
Mill Dels. U. S. (bales), season to	Sept. 30	96,098	59,229	109,941
Visible Stocks N. Y. (bales), as of	Sept. 30	27,760	25,060	40,711
RAYON (Yarn)				
Price cents per lb	Nov. 11	53	53	51
Consumption	Sept.	32.9	31.3	33.1
Stocks as of (a)	Sept.	13.0	18.9	34.6
WOOL				
Price cents per lb. tops, N. Y.	Nov. 11	1.13	1.15½	.85
HIDES				
Price cents per lb. No. 1 Packer	Nov. 11	14.00	14.50	13.00
Visible Stocks (000's) as of	Oct. 1	12,553	12,627	13,154
No. of Mos. Supply as of	Oct. 1	6.5	6.8	6.8
RUBBER				
Price cents per lb	Nov. 11	20.60	20.40	17.08
Imports, U. S.†	Sept.	41,939	38,045	37,374
Consumption, U. S.†	Sept.	50,150	50,481	37,823
Stocks U. S., as of	Sept.	150,171	161,358	268,094
Tire Production (000's)	Sept.	4,985	5,492	3,916
Tire Shipments (000's)	Sept.	5,565	4,919	3,888
Tire Inventory (000's) as of	Sept.	8,335	8,891	8,022
COCOA				
Price cents per lb. Dec	Nov. 11	4.69	4.78	4.76
Arrivals (thousand bags)	Oct.	467	202	186
Warehouse Stocks (thousand lbs.)	Nov. 10	1,057	1,063	940
COFFEE				
Price cents per lb. (c)	Nov. 11	7⅜	7⅝	8⅜
Imports, July 1 to (bags 000's)	Oct. 31	4,255	2,931	4,446
U. S. Visible Supply (bags 000's)	Nov. 1	1,977	1,460	1,448
SUGAR				
Price cents per lb.				
Raw	Nov. 11	3.00	3.00	3.05
Refined (Immediate Shipment)	Nov. 11	5.00	5.00	4.75
U. S. Deliveries (000's)*	1st 9 mos.	5,521	......	4,927
U. S. Stocks (000's)* as of (rr)	Sept. 30	498.0	......	701.8

PRESENT POSITION AND OUTLOOK

Copper. The past week was featured by a revival in the demand for copper by domestic users and fabricators, with the result that producers allocated sales to customers on a pro-rata basis. Supplies of copper for immediate delivery continue very restricted with sales of small tonnages being reported at 13¼ cents. Reports are current of a possible increase in the Chilean tax levied on copper producers. Several large French orders were reported placed with South American producers. Higher prices may be seen before the year-end.

* * *

Tin. Fourth quarter quotas have been raised to 100% of basic. During October world visible stocks rose 7,038 tons and Straits shipments in that month were the largest on record. Domestic tin plate operations are reported at 95%.

* * *

Lead. Stocks of all lead in the United States declined 17,399 tons during September. Sales have held steady and according to some producer estimates December business is about one third booked. Consumers are well diversified.

* * *

Zinc. Stocks at the end of October amounted to 72,405 tons compared with 95,615 at the end of the preceding month. Recent demand has been quiet, a normal sequence to the heavy buying wave a month ago. Galvanizing operations have held at 79% for three weeks.

* * *

Silk. Silk has retained a greater percentage of its price gain over the past two months than any other major commodity. This seems strange in the face of a substantially increased cocoon crop, and in some quarters is attributed to withholding of supplies by Japanese speculators for the purpose of aiding the government to build up dollar exchange. One of these days silk prices will be in a vulnerable position, particularly if consumption drops sharply.

* * *

Rayon. Domestic production of rayon in the third quarter was 12% higher than in the same period a year ago. Shipments in the third quarter totaled 97,100,000 pounds and stocks were reduced to 13,000,000 pounds at the end of September, or 60% under the level a year ago.

* * *

Hides. Although prices have displayed irregularity they continue to have the support of a strong statistical position. The surprising development has been the failure of tanners to be stampeded into increased output when prices rose spectacularly in September. Wettings by tanners in that month were down nearly 12% from the August level. Cattle slaughterings next year may fall below the current level.

* * *

Rubber. The Rubber Regulation Committee is scheduled to meet this week but there has been no hint as to what possible action may be taken. Spot supplies are restricted with no early relief in sight. Consumption last month is being estimated at between 49,000 and 53,000 tons.

* * *

Cocoa. Continued speculative liquidation has forced prices down virtually to their pre-war lows. Prices rallied somewhat on reports of impending control over Gold Coast crops and shipments by British government. Cocoa could stand considerable improvement in statistical position.

†—Long tons. *—Short tons. (a)—Million pounds. (ac)—Actual. (c)—Santos No. 4 N. Y. (pl)—Preliminary. (rr)—Raw and refined. (X)—No foreign statistics allowed to be sent from abroad because of war conditions.

Money and Banking

	Date	Latest Week	Previous Week	Year Ago
INTEREST RATES				
Time Money (60-90 days)	Nov. 10	1¼%	1¼%	1¼%
Prime Commercial Paper	Nov. 10	⅝-1%	⅝-1%	⅝-1%
Call Money	Nov. 10	1%	1%	1%
Re-discount Rate, N. Y.	Nov. 10	1%	1%	1%
CREDIT (millions of $)				
Bank Clearings (outside N. Y.)	Nov. 10	2,216	3,112	2,427
Cumulative year's total to	Nov. 10	104,450	......	97,609
Bank Clearings, N. Y.	Nov. 10	1,918	3,425	1,552
Cumulative year's total to	Nov. 10	144,487	......	146,869
F. R. Member Banks				
Loans and Investments	Nov. 1	22,728	22,657	21,408
Commercial, Agr., Ind. Loans	Nov. 1	4,310	4,292	3,892
Brokers Loans	Nov. 1	603	593	728
Invest. in U. S. Gov'ts	Nov. 1	8,684	8,628	8,132
Invest. in Gov't Gtd. Securities	Nov. 1	2,232	2,226	1,686
Other Securities	Nov. 1	3,291	3,324	3,263
Demand Deposits	Nov. 1	18,556	18,721	15,766
Time Deposits	Nov. 1	5,249	5,251	5,155
New York City Member Banks				
Total Loans and Invest.	Nov. 8	8,771	8,679	7,765
Comm'l, Ind. and Agr. Loans	Nov. 8	1,674	1,672	1,425
Brokers Loans	Nov. 8	467	472	574
Invest. U. S. Gov'ts	Nov. 8	3,508	3,458	2,923
Invest. in Gov't Gtd. Securities	Nov. 8	1,132	1,121	793
Other Securities	Nov. 8	1,192	1,145	1,089
Demand Deposits	Nov. 8	8,265	8,212	6,607
Time Deposits	Nov. 8	666	666	598
Federal Reserve Banks				
Member Bank Reserve Balance	Nov. 8	11,749	11,814	8,546
Money in Circulation	Nov. 8	7,409	7,352	6,764
Gold Stock	Nov. 8	17,132	17,099	14,091
Treasury Currency	Nov. 8	2,935	2,932	2,755
Treasury Cash	Nov. 8	2,263	2,250	2,737
Excess Reserves	Nov. 8	5,350	5,380	3,130

		Latest Month	Last Month	Year Ago
NEW FINANCING (millions of $)				
Corporate	Oct.	175.5	90.2	338.1
New Capital	Oct.	18.2	16.0	63.9
Refunding	Oct.	157.3	74.2	274.2

COMMENT

The latest weekly report of Federal Reserve Banks disclosed the largest reduction in three months in their government securities portfolio, reflecting the policy of permitting maturing Treasury bills to run off without replacement. The most recent decline totaled $34,000,000 and since last June the Reserve Banks have worked off $351,436,000 in discount bills. During the same period bond holdings rose $403,000,000. Also significant was the first decline in bond holdings since the heavy buying of government bonds early in September following the outbreak of war. Holdings of long term Treasury bonds were off $2,000,000, while holdings of short term notes rose $2,000,000. Although the amounts involved were not large, the transaction may mark the initial effort of Federal Reserve Banks to reduce longer maturities to more balanced proportions. In the past two weeks excess reserves have been reduced $180,000,000 below the record high of $5,530,000,000 on October 25.

* * *

Loans and investments of New York City banks increased $92,000,000, in the latest week, to $8,771,000,000, a new high since December 23, 1936. Total loans declined $16,000,000, while investments increased $108,000,000. Loans to commerce, industry and agriculture increased $2,000,000 and stand at the highest point of the season as well as for the past eighteen months. New York City banks again reduced holdings of Treasury bonds and added $9,000,000 in Treasury notes and $11,000,000 in government guaranteed issues to their portfolio. Apparently local banks are taking advantage of firmness in the bond market to reduce longer maturities and add to their short terms.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEX

No. of Issues (1925 Close—100)	1939 Indexes High	Low	Nov. 4	Nov. 11
316 COMBINED AVERAGE	73.1	50.7	72.0	68.5
5 Agricultural Implements	119.9	81.4	113.0	108.1
6 Amusements	43.2	26.8	30.3	29.6
15 Automobile Accessories	97.2	55.2	97.2H	93.5
12 Automobiles	13.2	8.1	13.2h	12.6
11 Aviation (1927 Cl.—100)	212.1	128.2	212.1R	199.7
3 Baking (1926 Cl.—100)	15.4	11.5	13.1	12.7
3 Business Machines	183.9	114.0	125.7	123.1
9 Chemicals	187.2	123.7	174.7	163.0
20 Construction	47.5	27.7	37.3	35.1
5 Containers	242.6	165.0	232.4	222.7
9 Copper & Brass	124.4	71.2	117.4	109.6
2 Dairy Products	32.1	23.6	29.8	29.3
8 Department Stores	23.9	16.5	23.3	22.3
7 Drugs & Toilet Articles	53.5	40.4	49.3	46.9
2 Finance Companies	312.0	219.4	267.1	261.8
7 Food Brands	103.3	69.1	95.6	94.0
3 Food Stores	48.4	33.3	47.3	46.1
4 Furniture & Floor Covering	72.1	47.1	59.3	57.3
3 Gold Mining	1301.2	884.6	966.4	957.5
6 Investment Trusts	28.1	19.2	26.2	25.0
4 Liquor (1932 Cl.—100)	193.1	133.0	162.5	155.4
9 Machinery	129.0	83.3	121.6	112.9

(Nov. 14, 1936 Close—100)	1939 Indexes High	Low	Nov. 4	Nov. 11
100 HIGH PRICED STOCKS	72.77	53.58	70.31	67.52
100 LOW PRICED STOCKS	66.79	44.98	66.60	63.29
2 Mail Order	93.0	69.2	92.9	90.8
4 Meat Packing	65.4	41.5	62.0	57.5
14 Metals, (non-Ferrous)	192.9	122.0	184.6	172.2
2 Paper	13.9	7.5	13.6	13.1
24 Petroleum	101.0	74.3	94.1	90.2
18 Public Utilities	62.6	44.9	56.3	55.2
4 Radio (1927 Cl.—100)	17.0	10.0	12.8	12.7
9 Railroad Equipment	65.1	33.7	59.1	54.8
22 Railroads	20.5	10.9	18.0	16.4
2 Realty	7.9	2.6	3.0	3.0
2 Shipbuilding	85.0	45.1	83.3	85.0H
13 Steel & Iron	105.6	60.4	99.1	92.8
2 Sugar	39.0	13.3	28.4	26.4
2 Sulphur	176.3	113.0	169.7	165.4
3 Telephone & Telegraph	53.2	40.3	48.8	48.4
4 Textiles	62.4	27.4	59.3	54.8
4 Tires & Rubber	20.0	13.0	16.5	15.5
4 Tobacco	86.5	76.2	81.2	81.7
4 Traction	39.1	21.9	33.1	32.6
4 Variety Stores	246.6	189.3	247.0	240.6
20 Unclassified (1938 Cl.—100)	112.0	73.1	108.1	101.3

R—New HIGH record since 1931. H—New HIGH since 1937. h—New HIGH this year.

Answers to Inquiries

The Personal Service Department of THE MAGAZINE OF WALL STREET will answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. This service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject only to the following conditions:

1. Give all necessary facts, but be brief.
2. Confine your requests to *three listed securities.*
3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope.*
4. If not now a paid subscriber use coupon elsewhere in this issue and send check at same time you transmit your inquiry.

Special rates upon request for those requiring additional service.

Interlake Iron Corp.

Some time ago you advised holding Interlake Iron when it was around 8, for which I am certainly grateful. At present I show about a point profit on 100 shares. Shall I continue to hold for further gains or take a profit? I understand the company has a very active fourth quarter schedule.—Mrs. T. C. G., Little Rock, Ark.

Interlake Iron is one of the major producers of pig iron and commercial coke, with pig iron the most important source of revenue. Used extensively by the automobile manufacturers, farm implement, railroad equipment and building supply producers, to mention the more important, production naturally depends on rates of activity in these heavy industry fields, but tends to lag behind the general business trend somewhat. Thus operations for the first nine months of 1939 resulted in a deficit of 55 cents a share, which compares with a deficit of 36 cents a share in the corresponding period of last year, but it is noteworthy that the deficit in the third quarter of this year was considerably reduced below that for the corresponding period of the year before. However, the company is booked to capacity for the rest of the year and it is believed that the fourth quarter will show a profit, though whether this profit will be large enough to wipe out the deficit of the three preceding quarters is, of course, conjectural. The company's plants are well located in regard to materials and markets and its affiliated interests assure it of adequate supplies for some years to come. Finances have been maintained in a very satisfactory position in spite of the fact that losses were reported in six of the last ten years. Funded debt in the amount of $8,900,000 ahead of the 2,000,000 shares of common stock tends to magnify earnings fluctuations on the common. With operations in the steel industry expected to be around current levels for some months ahead, earnings should respond quite noticeably and resumption of dividend declarations will probably follow fairly soon. The indicated basis for profitable operations over the months ahead lends a degree of speculative appeal to the common stock, in spite of its recent rise in the market, and we accordingly suggest further retention of your holdings.

Underwood-Elliott-Fisher

Having 200 shares of Underwood-Elliott-Fisher, purchased at 72, I wish to know if your analysts expect this stock to approach this level soon. Have profit margins increased lately? What about recent earnings? Can 1939 profits be estimated as high as $3.00 per share?—W. H. H., Gary, Ind.

Domestic sales of this important manufacturer of office and business equipment are likely to be at higher levels over coming months in line with generally improved business conditions, but the outlook is somewhat tempered due to the fact that normally about 35% of sales and probably a somewhat larger proportion of earnings is derived from foreign sources, largely European. Earnings for the nine months ended September 30, 1939, were equal to $1.58 per share, only slightly below the $1.63 per share reported in the corresponding period the year before. Because of the loss of European markets, however, the fourth quarter is likely to show a considerable drop, and earnings for the full year are likely to be below the $2.41 per share reported for 1938. In time, it is probable that the loss of European markets for the duration of the war will be offset to a large extent by increased purchases in other markets, especially those in South America. Profit margins have been rather well maintained and any increase in volume will see them further improved. Financial position has been maintained in a consistently sound position and the balance sheet at the last year end, which is the latest available, disclosed cash alone at between four and five times total current

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liabilities. Capitalization is simple, the 734,300 shares of common stock outstanding having sole claim on assets and earnings. Dividend policy has in the past been conservative, but present rates cannot be said to be secure in view of uncertainties resulting from the war abroad. However, in consideration of the admitted soundness and the longer term possibilities of the company, present prices would seem to amply discount unfavorable factors in the outlook and we believe that longer term retention of your holdings would be advisable at this time.

Endicott Johnson

Do you feel the increased demand for work shoes will be sustained throughout the next year to give Endicott Johnson a dependable source of business? I hold 150 shares of the common at 45 and currently show a profit. Am more interested in income as an investment aim. However, do you counsel retention at current levels or shall I take a profit now and try to buy back on a reaction before the next record date?—D. L. F., Tacoma, Wash.

Most of the production of Endicott Johnson is in the medium and low price group, with about 40% of the concern's entire output being represented by men's work shoes. Accordingly, this classification should be in greater demand as employment and general industrial activity rises. In addition, generally higher levels of consumer purchasing power should make possible greater sales of other lines manufactured by this concern. Shoe production in general is running at levels which are expected to be equal to those of 1937, but with the sharply increased prices for leather since the outbreak of European war, profit margins of manufacturers in this field will doubtless be restricted for the time being. Earnings of Endicott Johnson, it is estimated, will approximate $2.25 per share for the year to end in November, which would compare with earnings of $1.21 per share in the preceding twelve months' period. The company has recently advanced prices of its men's and boys' shoes, but further increases will be necessary to adequately offset increases in cost. While the dividend will likely not be earned in the current fiscal year, as pointed out above, no reduction in disbursements is looked for at this time, since the financial position of the company continues to be quite strong. Accordingly, we feel that your holdings of 150 shares should be retained at this time for the income which is afforded and for the moderately good longer term appreciation possibilities.

National Tea Co.

How do you appraise National Tea shares? I have read that total sales for the year to date are drawing up to the comparable 1938 period and may surpass the full year total at the present rate of improvement. In view of this situation, isn't the stock underpriced at current levels about 4½? I own 300 shares at 10½.—F. C. McL., Reno, Nevada.

Earnings of National Tea have been in an irregular decline for the past several years and operations of this chain for the forty weeks ended October 7, 1939, resulted in a deficit of $1.18 per share, which compares with a deficit of $1.42 per share for the comparable period of last year. To a large extent, these unsatisfactory showings have been the result of higher costs and taxes and narrow profit margins due to exceptionally keen competition with which an organization such as this is faced. The company operates a chain of approximately 1,100 retail food stores, the bulk of which are concentrated in the Chicago area, with the remainder in Minnesota, Wisconsin and Iowa. The company has for some years followed a policy of eliminating its higher cost and more unprofitable units. This, as well as other economies which have been put into effect, should be of benefit to the company. Over coming months, sales should show improvement as a result of better levels of consumer purchasing power and more satisfactory results should be shown on the stock. Sales have, in fact, recently shown considerable increase and are now running at about the same levels as for this time last year, and at least moderate improvement is in prospect over the near term. Finances continue to be satisfactory, though working capital position is not large. While the outlook does not point toward restoration of profitable earnings over the near term, and dividends are quite remote, the present low price of the issue would appear to have discounted uncertainties in the outlook and in our opinion the issue may be held at these levels as a price speculation.

American Crystal Sugar

Do you advise retention of 100 shares of American Crystal Sugar common at 16½? Have been expecting increased profits in view of the war and rising world demand for sugar. Is there any likelihood of a government-imposed price limitation on beet sugar? I understand some debts of the company were recently liquidated.—C. C. A., Honolulu, Hawaii.

American Crystal Sugar is one of the leading beet sugar producers in the United States, owning ten factories, situated mostly in the west. While land holdings are large, the company has, in the past few years, purchased most of its beets from independent growers on a participating basis. Under this agreement, the returns from sugar which is sold is divided about equally between the company and the growers, after certain expenses have been subtracted. Thus, while there is little to divide when the price is low, the company is protected to a certain degree in periods of falling prices. The earnings outlook at this time has been vastly improved by the outbreak of war in Europe, and it is probable that earnings for the fiscal year to end in March of 1940, will be considerably ahead of the 19 cents per share reported for the fiscal period ended in March of 1939. Demand prospects are highly favorable and sugar prices and profit margins are expected to be well ahead of last year.

The financial position has been recently improved by reduction of bank loans, and while earnings improvement may be sufficient to warrant dividends, disbursements will probably be postponed in order to further strengthen finances. Government imposed price-limits for sugar are a possibility, but as yet nothing concrete has developed in this direction. In view of the past restrictions under which the sugar industry has operated and the fact that the optimistic outlook which can be taken toward the industry now is almost entirely due to war influences, the shares of the subject company must be regarded as highly speculative. In reflection of the brighter outlook for the industry in general, the stock has recently had a rather sharp rise in the market, but we believe that their retention at this time on a speculative basis would be advisable for their further appreciation possibilities from current levels.

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Sears Roebuck & Co.

Have just learned that Sears Roebuck & Co. declared an extra $1.25 per share. As I already own 100 shares at 92, holding mainly for income, would like to have your opinion of price appreciation to level at which I bought. What is latest net earnings figure?—Mrs. B. T., Phoenix, Ariz.

In addition to its position as the ranking mail-order organization, Sears Roebuck & Co. is also one of the leading concerns in the retail department store field. Activities in the latter division accounted for 62% of total business in 1938. Sales and earnings are thus largely dependent upon levels of farm purchasing power and employment conditions generally, in the larger centers of population. During the past decade, substantial profits have been reported in each year, with the exception of 1932 when a small per share loss was incurred. Earnings in the fiscal year ended January 31st last, were equivalent to $4.18 per common share, down from $5.58 a share twelve months earlier. The regular 75 cent quarterly dividend distribution, which is considered as being secure at this time, was recently supplemented by an extra distribution of $1.25 a share. The 5,603,809 shares of no-par value common stock currently outstanding, enjoy sole claim on assets and earnings of the concern. As of January 31st last, finances of the concern were in their usual strong conditions. Current assets, including cash and marketable securities, of about $30,000,000, totalled $176,493,348 while current liabilities amounted to only $32,120,264, which left net working capital of $144,373,084. Profits in the first twenty-four weeks of the current year increased sharply to the equal of $2.42 per common share from only $1.29 a share a year earlier. Furthermore, reflecting rising commodity prices and increased consumer purchasing power, sales in the thirty-six weeks ended October 8th last, were at peak levels, 22.9% above corresponding 1938 volume. Profits in the current fiscal year should thus be considerably in excess of those of the previous term. High levels of business activity are expected to continue for quite some time and this concern is in a position to benefit to a marked degree. In view of the good earnings outlook at this time we expect higher prices for the shares, which we regard as rather attractive holdings for income and price appreciation.

U. S. Pipe & Foundry Co.

To what extent have construction activity gains and the impetus of the European war on prices aided the net earnings of U. S. Pipe & Foundry? I understand an extra of 50 cents has just been declared on the common, of which I own 100 shares at 52. Please give me your current opinion of this stock.—E. M. Z., Cleveland, Ohio.

Ranking as the leading domestic manufacturer of cast iron pipe, used principally in the construction of water and artificial gas mains, sales and earnings of U. S. Pipe & Foundry Co. are largely dependent upon levels of residential construction and the status of Federal and Municipal outlays for public projects and replacement work. The nature of the concern's business is such that earnings are subject to rather wide cyclical fluctuations. In recent years earnings have ranged between a loss of $3.32 per common share in 1932 and actual earnings of $3.45 per share in 1936. Net income in 1938 was equal

to $2.38 a share, down from $3.21 a share in 1937. At last accounts, finances were in sound condition, with current assets, including cash or its equivalent of about $4,000,000, amounting to $10,111,312 and current liabilities totalling only $1,398,-021. In the initial half of 1939, profits of $2.06 on each of the 695,923 shares then outstanding (sole capitalization) were reported as against only $1.12 a share in the January-June interval of 1938. Orders continue to be received in good volume and with a good sized backlog on hand, the probabilities are that earnings in the current half year will remain at highly satisfactory levels. However, uncertainties exist as to what effect the war abroad will have on the pipe business in 1940. Some expect a decline in both public and private construction activity, while others maintain that the recently much improved economic outlook for the country will find reflection in increased rates of private building. Accordingly, there is doubt as to the ability of earnings to continue at present relatively high levels. In any event, any decline that may be witnessed is not likely to jeopardize the current quarterly dividend distribution of 50 cents a share, which was recently supplemented by an extra of a similar amount. In spite of the uncertainties involved, we would advise continued retention, both for income and possible longer term appreciation.

Electric Boat Co.

Despite reports that Electric Boat has received large orders for marine engines and submersibles, the stock is still around the 15½ level at which I purchased 150 shares. Is this stock likely to appreciate after current legislation is resolved? Do you consider shares underpriced?—D. W. W., Oyster Bay, N. Y.

Electric Boat Co., as the only private company in this country equipped to build submarines, is naturally in a position to benefit from the current U. S. Naval expansion program. However, profits on this type of business are limited by law. Generators and motors, largely for the U. S. Navy, are also produced as are pleasure craft. The concern is also in a position to build torpedo boats and submarine chasers. However, currently activities of the submarine division are largely responsible for earnings. Profits have trended irregularly higher since 1932, when a net of about ½ cent a share was reported. 1938 net was equal to 75 cents a share, up from 68 cents a share in 1937. Capitalization is simple, consisting solely of 752,726 shares of $3 par value capital stock. The current 60 cent annual rate of dividend initiated in 1936 should be continued. As of December 31, 1938, current assets including cash and marketable securities of about $3,-500,000, exceeded current liabilities by $6,727,927. The concern does not follow the practice of issuing interim earnings reports, but indications are that full year 1939 profits will exceed the 1938 results by a modest margin. At the 1938 year-end, a backlog of $16,000,000 was on hand. Several months ago a Navy contract for four submarines, to cost $12,000,000, was received. This volume insures capacity operations for the submarine division for a considerable period of time. Now that the Arms Embargo clause of the Neutrality Act has been repealed, there is the possibility of receiving large orders for the small submarine chasers and torpedo boats manufactured, both from foreign sources and from the U. S. Government. At present quotations, these shares are not under-valued in relation to current and early prospective earnings. However, based on possible orders for small warcraft, the shares appear worthy of continued speculative retention at this time.

General Bronze Corp.

Are there any direct or indirect benefits from the European war which might accrue to General Bronze Corp.? Also please advise whether increased construction activity has brought much new business to this company. I hold 250 shares of the common at 5½. What are the chances of a price improvement? —C. D. O'N., Sebring, Fla.

General Bronze Corp. ranks as the leader in the manufacture of bronze, iron and other metal work, used principally for architectural purposes, lighting fixtures, stairways, elevator doors and statuary work. Leading outlets include factories, office buildings, etc. Low levels of industrial and commercial construction activity in recent years resulted in a relatively poor earnings record since 1929, when $4.01 per capital share was earned. Since that time deficits have been reported in four years, and only small earnings in the remaining five years. Profits last year amounted to 23 cents a share, down from 48 cents a share in 1937. No dividends have been paid since 1930 and early resumption is not likely. As of April 30th last, current assets, including cash and marketable securities of $962,816, totalled $2,092,018 while current liabilities amounted to only $228,828. The 228,880 shares of $5 par value capital stock outstanding are preceded in the capital structure by $1,390,500 of 6% debenture notes due May 1, 1940. A plan to take care of this maturity has been proposed to bondholders. No earnings reports have been released since the 1938 figures became available. However, continued keen competition and sales not much changed from 1938 levels, will likely find reflection in earnings for the full year 1939, being not much changed from previous year results. Federal expenditures for public buildings likely will be reduced next year but corporate plant expansion programs necessitated by improved business conditions, influenced by the war in Europe, may be of benefit. Thus, at this time the 1940 earnings outlook is not clearly defined, but no great change from current levels is anticipated. Although the shares are rather limited in their speculative appeal at this time, we feel that the longer term potentialities warrant their continued speculative retention at present relatively depressed prices.

Howe Sound Co.

Would appreciate your latest appraisal of Howe Sound. Am holding 100 shares at 55. How much will the removal of the 12% Mexican export silver tax mean to the company? What is the progress to date of the Chelan Mine? How extensive are lead inventories and reserves?—M. E. M., Gloucester, Mass.

Earnings of Howe Sound Co. are derived from the operation of three mines, the Potosi lead-zinc-silver mines in Mexico, the Britania copper-gold mine in British Colombia and the Chelan copper-gold mine in the State of Washington. Operations at the latter property began in early 1938 and have become of increasing importance since that time. This lessening of dependence on Mexican activities is of a constructive nature. Ore reserve data has not been published. In the year ended December 31, 1938, sales comprised 43,733 ounces of gold, 4,473,-377 ounces of silver, 46,460,000 pounds of copper, 117,217,629 pounds

of lead and 109,183,903 pounds of zinc. As compared with other mining concerns, the operating record of this company has been rather outstanding in that, with the exception of 1932, when a small per share loss was incurred, earnings have been reported in every year since 1929. Net income in 1938 was equivalent to $4.55 per capital share, as compared with $10.03 a share in 1937. Dividends have been paid at varying rates for a number of years. The current regular 75-cent quarterly dividend rate, which is occasionally supplemented by an extra, is considered as being secure at this time. Capitalization is simple, being comprised of only 473,791 shares of $5 par value capital stock. Finances continue characteristically strong. Profits in the first nine months of the current year were equivalent to $3.71 per capital share, as compared with $3.19 in the similar year earlier interval. 1939 output of the United States property will be far in excess of 1938 levels. Canadian gold production is rising, but price limitations on copper and increased operating costs and exchange restrictions will have a retarding influence on earnings. Income from Mexican properties, little influenced by the removal of the 12% Mexican export silver tax, should improve. Currently, estimates are being made that full year 1939 earnings will approximate $5.00 a share. In view of the good past earnings record and favorable longer term prospects, we would advise continued speculative retention of these shares.

Sustained Business Boom Ahead?

(*Continued from page* 140)

rate of steel operations will slacken and the mills will be able to restore some order and efficiency to their schedules. The industrial production index will suffer, but just as there is a lag between this index and general prosperity on the way up, the immediate effects of its reaction will not be general or damaging.

The complaint of economists and observers of the business situation for years has been that all attempts at recovery have been lop-sided in that they did not sufficiently include the capital goods industries. Now that we are at last in the midst of a sharp improvement led by the former laggards, it is perhaps human but not very sound reasoning to mistrust the recovery because production is for the moment exceeding consumption. Balancing the trends in each against the other, the situation seems to hold considerable promise that a solid foundation for recovery is being laid. A minor interruption to the uptrend in production coming after the year end would not be exactly welcome, but it would leave today's generally encouraging situation intact and ready for further improvement later in 1940.

Rails That Pay Off Through Thick and Thin

(*Continued from page* 168)

in the operating ratio from 62.7% to 60.3%. Deductions for maintenance were approximately the same, or 30.5 and 3.2% respectively for the nine months of 1939 and 1938. Earnings improved thus far this year so that $2.09 per share was reported on the common stock against $1.62 for the same part of 1938. Though earnings are influenced by cyclical fluctuations, somewhat greater stability is shown by this road than by most others as a result of its large coal traffic. Through subsidiaries a 49.1 per cent interest is owned in Pere Marquette, a 55.6% interest in Erie, 57% in Nickel Plate and 42.7% in Chicago & Eastern Illinois capital stock. None of these roads is in strong financial condition and income derived from outside holdings is negligible.

Unlike the eastern carriers Union Pacific does not depend basically on any single commodity such as coal. In addition it has the advantage of being a major trans-continental system of some 10,000 miles covering 11 states in the central and far west. Traffic is well diversified with manufactured and agricultural products gaining during the past ten years at the expense of mine commodities. Normally each of these groups contributes approximately one-fourth of freight revenues. Passenger business is of importance.

For 1920-1929, inclusive, a dividend of $10 per share was paid in

Forthcoming Dividend Meetings

Company	Time	Date
Air Reduction	9:15	12/13
American Can	2:15	12/26
Briggs Mfg.	4:00	12/12*
Cerro de Pasco	2:00	1/ 2
Ches. & Ohio Ry. Com. & Pfd	2:30	11/21
Comm. Invest. Trust Com. & Pfd	4:00	11/23*
Detroit Edison	2:00	12/12
Diamond Match	11:00	1/28
Du Pont Com. & Pfd	11:15	11/20
Ex-Cell-O	11:00	11/24*
Food Machinery Com. & Pfd	9:15	12/ 4*
General Printing Ink Com. & Pfd.	2:30	12/ 6
Gt. Western Sugar Com. & Pfd	10:00	11/22
Hecker Products	9:30	12/27
International Business Machines	11:00	11/28
Jewel Tea	11:00	1/31*
Kennecott Copper	11:45	11/21
Kress (S. H.) Com. & Spec. Pfd.	11:00	1/ 5
Lambert Co	9:30	12/ 5
Lee Rubber & Tire	1:30	12/28
Mead Johnson Com. & Pfd	10:00	11/27*
National Dairy All Classes	10:30	11/23*
Public Serv. of N. J. Com. & 6% Pfd	3:00	11/21
R. J. Reynolds	3:00	12/14*
Singer Mfg. Co.	——	12/16
Union Oil of California	10:00	1/12
Virginian Ry. Com. & Pfd	11:00	12/12*
Woolworth (F. W.)	10:00	1/10

* Approximate date or time. All meetings are on common stock unless otherwise specified.

each year. Actually dividends have been distributed at various rates since 1900. For 1930-38, inclusive, dividend disbursements averaged $7.11 per share, and the rate established in 1933 of $6 per share is continuing during the current year. These payments have been covered in every annual period, though occasionally by a narrow margin. During the last nine years, the poorest in the company's history, average share earnings were equal to $8.35.

An important share of earnings is derived from other than railroad operations. In recent years this has accounted for from 30 to 45% of total gross income. The more prominent holdings include $12,800,000 in Government bonds and $67,735,085 in other bonds, notes and equipment trust certificates. A half interest in Pacific Fruit Express has returned a satisfactory income over many years, while oil properties operated by this line have proven highly profitable of late. Other miscellaneous properties include hotels and large blocks of railroad shares such as Baltimore & Ohio, N. Y. Central and other major lines.

Total operating revenues in the first nine months of 1939 gained 12.5%, though the operating ratio was increased slightly to 74.2% compared with 73.2% in the first nine months of last year. Deductions for maintenance were increased slightly to 30.9% of gross revenue against 29.7%, while earnings on the common stock were equal to $2.88 per share compared with $2.59 in the same part of 1938.

Of the foregoing roads there is little doubt that the outstanding line is Norfolk & Western. Management of this company has tended strictly to the railroad business and not branched into other non-operating activities, and for years has followed a notably conservative financial policy. In this manner it has not sapped its vitality as have some other lines. While the future of all roads is closely associated with the business and industrial situation of the nation as a whole it seems that those roads whose traffic is largely dependent upon the shipment of coal have the basis for a considerable degree of economic stability at least. Despite the fact that competitive fuels have reduced the market for coal it continues to remain a fundamental necessity, which in the long run neither truck, vessel nor airplane, is likely to change materially. Union Pacific represents more of a cross section of the nation and is more dependent upon the inherent soundness of our economy. It therefore might be considered to have greater speculative possibilities than the other lines here mentioned, and its future is more intimately tied up with that of the rest of the country.

The Investment Clinic

(*Continued from page* 159)

ing stake of automobile equipment manufacturers in the aviation industry and earnings this year will reflect the frenzied production of new aircraft during the past twelve months.

Among other groups in the prince-and-pauper classifications favored by improved earnings and better prospects are several paper manufacturers, manufacturers of railway and electrical equipment, makers of building supplies and materials, nearly all of the leading chemical companies and some of the better situated steel companies. In all of these groups will be found candidates for favorable dividend action, and some companies apparently once again in a position to resume common dividends after a lapse of nearly two years.

The oil industry, handicapped by an unprofitable price structure, has only a few candidates. The same also applies to the railroads, for well known reasons. A number of public utility operating units, on the other hand, will probably be included among companies taking favorable dividend action in the near future. Finance companies, whose earnings normally tend to lag before reflecting in full measure a period of business recovery, are already committed to generous dividends which now, however, appear more assured.

The accompanying tabulation lists about three score companies which, on the basis of their earnings in the first nine months of this year and a favorable fourth quarter prospect, seem able to take favorable dividend action. This list was designed to be representative rather than all inclusive and the omission of a company does not necessarily mean dividend prospects are unfavorable.

A Speculation in Copper

(*Continued from page* 173)

ally the Allies were heavy buyers and the American companies prospered accordingly. The productive capacity of the world at that time was estimated at 1,580,000 tons annually. This figure has now been almost doubled with productive ability rated at 3,340,000 tons per year. Practically all of this gain has come from the discovery of low cost mines in Chile, Africa, and Canada. The resultant realignment of percentage ownership has made it unlikely that this country will supply more than a small portion of the war needs of the belligerent nations. Great Britain, one of our largest customers during the 1914-18 period is now self-sufficient. Our domestic mines today produce only 33% of the world total, while our production percentage including foreign holdings has declined to 54.6%.

The foreign copper cartel, of which both Anaconda and Kennecott are members, has set production rate at 105% of capacity which means to all intents and purposes unrestricted output since no metal is available for shipment. American members of the cartel are not permitted to sell domestic copper in foreign markets either, but on the other hand the output from their low cost mines in South America cannot enter this country because of the high tariff rate.

Thus, with the exception of possibly Japan, sales of domestic copper in foreign markets do not assume wide proportions, and war influences will be kept to a minimum. Industrial activity in this country, however, is increasing at a steady pace, and with it the demand for copper is growing. The higher price level is backed by an excellent statistical position the result of months during which production dropped far behind consumption. A further lag has been built up between copper fabricators and producers with the latter's orders for finished products ahead of their purchases of metal. Basic industries have given indications of what may be expected in the way of demand for copper should the business picture continue to improve at anything like the present rate. The

utility systems have placed orders for several million dollars worth of equipment already, and estimates have been made that show needs running into hundreds of millions. Copper plays an important part in this field. Then, too, the building industry has been taking increasing quantities of the red metal as residential construction is stepped up. Other chief customers of the industry are also registering important gains, and there seems to be every indication that the demand for copper is taking on a dynamic aspect, although October sales were well under record September volume.

Right there is the key to the immediate future of Inspiration Copper. Selling at 16 the stock is not conservatively priced, since it is difficult to see how dividends can be coming the way of stockholders in view of the note obligations outstanding. However, with reduced interest charges, and increased volume of sales at profitable levels, the company should pull well into the black again this year. And if business expansion creates a demand that warrants further increases in copper prices, it is difficult to see how they can be held back by the calm statement from Washington to the effect that $12\frac{1}{2}$ cents per pound seems an ample price for the red metal. Certainly a run-away market would bring about the inevitable reaction, but there has been no sign of such a condition developing, and it is not to the advantage of the copper producers to permit it. Barring a sharp drop in business such as can be envisaged only if a strong lag develops between production and consumption, aided by heavy inventory positions which do not yet exist, the prospects for the copper industry have improved greatly. Handsome speculative profits can be made in Inspiration shares—but not unless the stock is bought in one of its periodic phases of depression.

What War Orders Mean to the Truck Makers

(*Continued from page* 177)

Earningswise, allowing for a typically high leverage factor and the wide profit margins available on foreign business of this sort, the percentage gain would be much greater.

In addition to trucks for transporting troops and materials, a certain amount of demand can be expected for scouting and armored cars, gun carriages, etc. While the truck makers are probably not equipped to turn out complete tanks in important quantities, they may participate in the parts business.

Of course, prospective orders from belligerents abroad is by no means the only favorable factor in the current outlook for the truck builders. There is also likely to be an increase in export business to neutral countries heretofore served by the warring nations. Moreover, our own Government should prove an important source of demand; of interest in this connection are current reports that the Army is seeking funds for the purchase of 12,000 new trucks in time for the spring war games. In any event, a substantial portion of national defense expenditures next year will undoubtedly be allotted to mechanization of the Army.

Even apart from foreign and domestic military needs, truck demand has picked up sharply in line with general business improvement and should continue to do so barring an important downturn in industrial activity as a whole. Many common and contract carriers may expand their truck fleets considerably as a result of the increased volume of traffic available. By and large, it seems likely that truck production next quarter will increase more rapidly than that of passenger cars and may run as high as 25% of total automotive output as compared with a normal figure of about 20%.

But while the industry's outlook is thus more encouraging than it has been in many a moon, there are, from an investment angle, the inevitable restraining factors. Competition is one, though, of course, this tends to be ameliorated during periods of prosperity. Another is cost-price relationships which, while not so important in the case of war business where the buyer is more interested in delivery than in price, may constitute something of a problem in the domestic field especially if 1940 steel prices are materially advanced.

Finally, there is the question, by no means peculiar to this particular situation, of what will happen if the war comes to an early and unexpected end. So long as plant capaci-

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ties are not unduly expanded to take care of extraordinary demand, repercussions would probably not be lasting or serious. However, the factor is one to be borne in mind in connection with any company or industry deriving a substantial part of current or prospective business directly or indirectly from the war.

Canada Meets the Crisis

(*Continued from paeg* 143)

and all transactions in foreign exchange was authorized by the Canadian Government, under which all importations of goods into Canada and exports from that country require an official license, and all transfers of funds, securities and various evidences of indebtedness, an exchange permit from the agencies created by the Foreign Exchange Control Board. For the time being, however, no restrictions are actually being applied upon the normal flow of trading between Canada and the United States. Canadian firms desirous of importing merchandise from the United States are being granted licenses freely and promptly, nor do they encounter any difficulty in connection with securing permits for the transfer of foreign exchange in payment of such imports from the United States. According to advice from the American Commercial Attache in Ottawa, it is the intention of the Canadian Government to apply the minimum of control over the normal flow of trade between the two countries, and to utilize the Foreign Exchange Control Board to develop the information considered essential in formulating future plans for the control of Canada's foreign trade and foreign exchange. Even though it may be difficult, in times of stress, to hazard prophecies in regard to the policies which Canada may choose or be forced to adopt from time to time, one thing is certain: The Dominion will continue to steer clear of unsound and fantastic measures in the future as she has always managed to do in the past.

The service on Canadian bonds held by American investors is not expected to be interrupted. In this connection, attention may be directed to a recent announcement by the Dominion Government to the effect that those who have shared in the devolpment of the country's resources by investing in Canadian enterprises and various securities close to seven billion dollars, will continue to receive interest and dividends on their investments. An analysis of the country's balance of payments reveals that servicing contractual commitments does not constitute too heavy a burden upon the nation's economy. (See accompanying table).

An adverse balance of international payments of only $24,700,000 should cause no concern either to Canada or to those who hold Canadian securities. It is of interest that even this deficit would have been eliminated if the Dominion had reduced the amount involved in the repurchase of outstanding securities from foreign owners to the amount involved in the sale of outstanding Canadian issues to foreigners. It is confidently expected that the war will not materially affect the economic and fiscal structure of the Dominion, which is sufficiently solid to withstand the stress incident upon the new holocaust.

As the Trader Sees Today's Market

(*Continued from page* 165)

they have derived from the considerable advance in the values of American securities, the English have gained another advantage on the selling side in the form of a drop in sterling. Admittedly this drop in the quoted price for free sterling to around $3.77 to the pound may snap back at them in the form of higher commodity prices at any time. But thus far they are getting more pounds for their dollars. Though the fixed internal rate is kept near $4.03 there is no attempt to support the free pound through the Stabilization Fund and the implication is that the British Government intends to use this gold to purchase goods with instead. They are relying on their vast holdings of gold and securities throughout the world to give them the necessary buying power without having to resort to the purchase of foreign exchange. Naturally this creates additional pressure for the sale of American obligations, but this is in part balanced by the gold held by our Treasury Department under ear-mark for the Allies. Exact figures are not given out but estimates point to about $1,000,000,000 in gold being held here for European account, and it is logical to assume that a good portion of it belongs to the Allies. This added to dollar balances of $850,000,000 gives them a strong position at the present time.

From the operations of the British Government it may be concluded that the problem of liquidation will be handled with the utmost care by market experts. That the selling will grow in volume in direct relation to the intensity of the war is natural, but that it will be adjusted to the ability of the New York market to absorb it is also understood. The British are favored by the current upswing in business and industrial activity in the United States which carries with it a higher trend for stock prices. Eventually this will probably mean greater volume in trading as well with a consequent widening of selling opportunities.

The precedent for the present situation is a favorable one. In a market that had never before seen operations on so vast a scale, and that had but shortly before been so completely demoralized that closing was the only alternative, the British in 1915 actually liquidated upwards of half a billion without halting an uptrend. This of course was after the Securities Committee came into existence and before our entrance into the fight began to act as a brake. At the present time there is every reason to believe that operations will be even smoother, and that, providing nothing throws our economic machinery out of line, the gradual liquidation of Allied securities over here can be effected on a scale that will enable them to satisfy their needs and yet not disrupt our markets.

Motor Sales Up Sharply

(*Continued from page* 163)

erable advances, however, the maximum amount of total production ever held by the company was 2.44%. Nash's other interests make for organizational troubles, but some

improvement in relation to the industry is noted.

The present year has seen a continuance of the general trend as far as the major concerns go, but the leadership within the companies has been taken by different makes. The Dodge division of Chrysler Corp. shows a 100% gain over last year, the greatest for the company, while the Pontiac division of General Motors with a 60% increase has been leading that company. Though it is producing about 28% more cars this year than the year before, Ford has continued to lose ground in relation to the industry in cars bearing this name, although the addition of Mercury figures reverses the picture as far as the whole company is concerned. Studebaker shows the greatest percentage rise for the industry with a 117% increase over last year's production. A new model, stressing low initial cost and reduced upkeep expenses, is mainly responsible.

The trend of the industry's sales to consumers has been maintained sharply upwards with no evidence of major shift in recent trade standings. Buick is enjoying record sales and orders on hand will keep the plants booked at capacity for a long time to come. Hudson's output and sales have been up much less than the industry as a whole, and Packard has also failed as yet to show a proportionate improvement in position.

Although the medium priced cars are making good gains with Mercury, Oldsmobile, Buick, La Salle, and Chrysler sales up sharply, there has been no comparable improvement in the sales of high priced cars.

The price reductions that went into effect with the new model year are almost uniform throughout the industry in relation to the individual price bracket of the car, and are not expected to have any effect on the trend of sales of the separate companies. Average reduction amounts to $25 per car, and is the result of the savings made by the car manufacturers when they bought practically a year's supply of steel during the short, bitter price war early this year.

In spite of the repeated attempts made to "put over" the small, cheap cars in the Bantam and Willys class, the public steadfastly refuses to buy them in quantity. During recent years in fact the trend has been more and more towards the larger and heavier cars in the low price field.

Import and Export War Babies

(*Continued from page* 171)

reduced or eliminated entirely.

Last year we imported in round figures $30 millions of meat products, $49 millions of whisky and other spirits, $36 millions of fertilizers, $33 millions of cotton manufactures, $15 millions of wool manufactures, $130 millions of crude rubber, $45 millions of tin, $30 millions of hides and skins, $11 millions of cheese, $89 millions of raw silk, $73 millions of wood pulp, and $101 millions of newsprint. In each case a rise in price because of war either encourages domestic competition or makes more practical a substitute available within our own borders. All the import figures, moreover, are substantially below those of the year before and below those which would have been reported for 1939 if conditions had remained normal.

The result of war in the paper industry has been to shut off Scandinavian shipments and to start Canada shipping to Great Britain. Prices quoted on domestic bleached sulphite are still at $50 a ton, but the price means nothing as there is none for sale here. Prices of various paper products have skyrocketed. Certain non-integrated companies will find such conditions a great hardship, but those which produce their own pulp—International Paper and Union Bag & Paper, for instance—are enjoying all the benefits of a sellers' market, with none of the worrying that the more typical war babies have to do over whether or not they are actually going to receive the rumored orders.

In the paper industry the changed world situation is already a potent factor. But consider the chain of "ifs" in regard to coal. If the war continues, we shall undoubtedly capture Europe's South American coal trade. If war has the effect of pushing oil prices upward, as it would if prolonged, then coal will regain some of its lost competitive ground, not only in South America but in this country and all over the world wherever power must be generated. If, again, the war should be long and desperate, coal might be the daddy of all the war babies simply because it has more to recover from an investment or profits standpoint. Whether it be coal or paper or a domestic cheese, however, the line of thought certainly deserves following by any who try to look beyond the obvious war babies.

Cross Currents Dominate Office Equipment Industry

(*Continued from page* 162)

1946, so that adequate capital for financing of this increased volume of business would be assured.

Since rentals contribute the bulk of revenues, net income is not affected as much as it would otherwise be. On the other hand this makes for relatively minor changes in gross income from year to year since rentals are credited to gross when received and these extend over considerable periods of time. A rising trend in depreciation charges has become necessary, and this has worked toward reducing net income. Where currency restrictions abroad have resulted in blocked accounts these have been completely written off in a special reserve. The first three quarters of the current year has shown improvement over the corresponding period of 1938, and for the first nine months $7.70 was earned on the 855,408 shares of common stock compared with $7.07 per share in the same part of last year.

With 50% of its annual sales consisting of typewriters, Underwood-Elliott-Fisher can justly be considered a leading unit. The present organization has paid dividends at various rates on its common stock since incorporation in 1928. Except for the year 1932 the company has been consistently in the black, and since that time has recovered rapidly with 1937 the second best year in its history. In addition to typewriters, accounting and adding machines are sold as well as small supplies such as typewriter ribbons, carbon paper, etc.

Earnings are largely determined by the cyclical fluctuations of business and, because of the heavy costs involved in distribution, sales volume has a fundamental effect on profit margins. Capital requirements are no more than normal, but due to a conservative policy working capital rose better than 50% in the six years ended December 31, 1938. In June,

1936, the outstanding preferred stock was retired through sale of additional common at $75 per share. For the nine months ended September 30, 1939, earnings on the 734,300 shares of common were equal to $1.58 per share contrasted with $1.63 in the corresponding part of 1938.

Burroughs Adding Machine, because of its unbroken dividend record since 1905 and satisfactory earnings can also be classed among the better equipment companies. Principal products include a line of adding, billing, calculating and typewriter-bookkeeping machines as well as cash registers and standard typewriters. Sales volume depends basically on changes of the business cycle, and because of quite a large overhead net income fluctuates in accordance with these variations. The financial position is exceptionally strong with cash alone in excess of total current liabilities, and with a working capital ratio of 10.5 to 1. Foreign business since the war is reported to have picked up. In the first six months of this year earnings on the 5,000,000 shares of common stock, the sole capitalization, were equal to $0.27 per share against $0.41 in the corresponding period of 1938.

Of a more speculative nature than the foregoing three companies are National Cash Register and Remington Rand. The first named company produces about 90% of cash registers used in this country, and approximately 50% of its output is exported. Because of rather rigid costs National was in a weakened position when sales and earnings plummeted following the all-time high made in 1929. Some recovery was witnessed following 1932, but the outlook continues obscure. A total of $0.80 per share was earned for the nine months ended September 30, 1939, compared with $1.04 for the same period a year ago.

Remington Rand, carrying a full line of office equipment, is faced with problems somewhat similar to those of National Cash Register. Approximately 75% of its sales consist of typewriters, cabinets and filing and visible indexing equipment. Since 1931 operating costs have been reduced, but because of the many different lines handled it has been found difficult to cut overhead rapidly. A satisfactory financial position has been maintained, however, and the management appears to be making some progress in bettering the earning power of the company. In the first quarter of the current fiscal year, ended June 30, 1939, a loss of $0.04 per share was reported on the common stock against a loss of $0.07 in the same part of 1938.

In conclusion it should be pointed out that for the industry as a whole profit margins are likely to tend lower in most cases due to greater competition and a somewhat narrowing market for its products.

Stockholder's Panorama of the Aircraft Industry

(*Continued from page* 151)

is merely the tremor compared to the earthquake that would follow any really discouraging news.

Any stock relies in time of trouble upon the investment demand built up by years of consistent performance. Its market price depends in great measure upon the loyalty of its following, upon the investors who have decided that it is worth holding through thick and thin. No one can measure the floating supply of du Pont or General Motors, but it should be apparent that there is a tremendous difference between the *resiliency* of such issues, aside from long term prospects, and that of a stock which has been brought upon hopes of quadrupled earnings. Disappointments in the one case have a far greater effect than in the other.

It would be blindly stubborn, however, not to admit that such technical considerations are meaningless compared to the facts of rising earnings and dividends. As long as these continue and show no signs of stopping, the aircrafts will be a popular group, decidedly worth following on the part of the trader and undeniably interesting to the speculator for the longer term. There is no better answer to one who asks your opinion of the aircrafts as an investor than this: The question is one of temperament and attitude toward the industry. If willing to take the downs with the ups, one can see progress ahead for many companies. This, however, is distinctly an "up" moment, and there may very possibly be better times to *initiate* a sharing of aviation's fortunes.

What Third Quarter Earnings Tell About Fourth Quarter Prospects

(*Continued from page* 157)

period is indicated for the motors. Only fly in the ointment is the Chrysler strike. However, progress toward a settlement in the not too distant future is reported and, unless trouble spreads unexpectedly to other plants, operating results of the industry as a whole will not be importantly affected.

General Motors, despite disruption of its foreign business, is doing well enough domestically to suggest that earnings for the current three months will be in the neighborhood of the $1.44 reported for the December quarter of 1938. Since third quarter profits amounted to approximately 15 cents per common share, bringing nine months earnings to $2.39, this would mean a full year figure of something like $3.85.

To sum up, all signs point to a general run of fourth quarter earnings that should make quite pleasant reading and will, in the great majority of cases, serve to bolster full year results that might otherwise have been somewhat less than inspiring. But just as there were last quarter, there will again be some groups—such as the low-leverage, consumer necessity lines already mentioned—as well as a number of miscellaneous individual companies that will not share fully in the general betterment.

Earnings prospects beyond the end of the year necessarily remain obscure. It seems fairly certain that the present high rate of activity in most lines will extend at least half way or more into the first quarter of 1940, but, unless war demands, the mere prospect of which has supplied most of the impetus to the upsurge in business since September 1, are actually forthcoming on a larger scale than now seems likely, it is probable that by spring at the latest we will witness the usual sequel to a boom—a good stiff reaction and a proportionate shrinkage in earnings.

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